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Latin America and the Caribbean: Congressional Priorities for 2014

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In 2013, the Obama Administration seemed to take for granted U.S. relationships with our many friendly neighbors in Latin America and the Caribbean—nations that share our democratic and economic values—while ignoring growing threats to our national security from some countries in the region that are openly hostile to America's core principles.

In 2014, Congress should insist that the Administration reshape its Western Hemisphere policy to advance U.S. national interests, improve already robust trade and investment ties, and actively combat criminal and terrorist organizations. Here are some specific areas where current policies should be changed.

Support a Genuine Democratic Transition in Cuba. Many international observers were bamboozled by the Castro regime's timid steps toward liberalization last year, hoping they signaled a transition to democracy, but a closer look reveals that the Castro brothers and their cronies continue to adhere strictly to the same communist principles that put the country on the road to ruin more than 50 years ago.

What mainstream pundits fail to note is that Raul paired some small free-market reforms with a harsh new crackdown via the dictatorship's organs of repression. For example, Cuba continues to hold hostage former U.S. Agency for International Development contractor and American citizen Alan Gross.

The Obama Administration has dropped hints that it is reassessing its Cuba policy and has called for a more creative approach to Cuban–American relations. Rather than conceding any ground to the regime, however, the Obama Administration should remain focused on using sanctions as leverage for a democratic transition and the protection of human rights. Any relaxation of sanctions should be a reward granted only when Cuba takes steps toward economic and political freedom.

Support the Pacific Alliance. The "Pacific Alliance" (Chile, Colombia, Mexico, and Peru) provides the U.S. with the best and most viable alternative to the state-centric and anti-American bloc of countries led by Cuba and Venezuela. The Pacific Alliance can help synchronize its members' trade commitments and is aimed at enhancing trade with the bloc's most dynamic partners in East Asia.

The numbers speak for themselves. The four economies of the Pacific Alliance are the most dynamic in the region, representing more than 40 percent of Latin America's economy with a market of more than 210 million people—more than one-third of the region's population. Since 2010, they have grown at a higher rate than their neighbors and have also invested at a greater rate—25 percent of their combined gross domestic product (GDP), compared to just 20 percent elsewhere. The Obama Administration should encourage the Pacific Alliance as the best way forward for all of Latin America.

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Forge a Stronger Relationship with Costa Rica. Costa Rica's long history of stable democracy has helped it attract foreign direct investment and has contributed to stability in the region. Although the country enjoys one of Latin America's highest levels of GDP per capita, the proportion of the population living in poverty has remained stubbornly above 20 percent for nearly two decades. The administration of outgoing President Laura Chinchilla and her National Liberation Party has long been criticized for corruption and lack of transparency.

With Costa Rica set to join the Pacific Alliance and assume leadership of the Community of Latin American and Caribbean States from 2014 to 2017, it is vital to U.S. national security that governance in Costa Rica be strengthened.

The February 2014 presidential election presents an opportunity for the Obama Administration to urge Costa Rican voters to support candidates who are strongly committed to the rule of law, will take steps to improve the judicial system, and will better protect property rights.

Support Broader and Deeper Economic Reforms in Mexico. Mexican President Enrique Peña Nieto has pleasantly surprised even the most optimistic observers. In addition to adopting much-needed education and security reforms, he signed a law ending the 70-plus-year monopoly of the state oil company PEMEX, permitting private companies to drill for oil and gas. After the Arctic Circle, Mexico is sitting on the largest unexplored crude reserves in the world. Successful implementation of these reforms could add an estimated 2 percentage points of growth to Mexico's GDP and create over 2 million jobs in the next decade.

President Obama should signal strong U.S. support for these reforms and push for even greater ones—not only to spur Mexican demand for American products and investments but also to create new job opportunities for those Mexicans who have been looking for work outside Mexico.

Encourage Reform in Brazil. As Mexico leapt ahead in 2013, Brazil slipped back and proved yet again that it has not thrown off the nationalistic and protectionist policies that have held back its economic potential for generations. Combined with excessive and unsustainable social spending by President Dilma Rousseff's government, Brazil focused inordinately on exploitation of natural resources by inefficient state-owned companies that are hampered by the heavy revenue demands of the government.

Sustainable economic growth and productivity could be achieved more effectively in Brazil by pursuing a series of reforms focused on economic freedom, including privatizations of state-owned enterprises, liberalization of Brazil's rigid regulatory environment, and harmonization of the country's many different taxation regimes. The Obama Administration should make these reforms its top priority with Brazil.

Prepare for the Inevitable Crash in Venezuela. The foundations of economic freedom in Venezuela have crumbled. As one Latin pundit put it recently, "Brazil is becoming Argentina, Argentina is becoming Venezuela, and Venezuela is becoming Zimbabwe."[1]

When the late President Hugo Chavez took office in 1999, Venezuela scored 54 out of 100 possible points in The Heritage Foundation/*Wall Street Journal*'s annual *Index of Economic Freedom*. Today, however, after 14 years of Chavez's soft authoritarian populism, Venezuela merits a score of just 36 points. This nearly 20-point plunge is among the most severe ever recorded in the history of the *Index*. Its 2014 rank—175th out of 178 countries—places Venezuela among the most repressed nations in the world.

The Obama Administration and Congress should prepare for the inevitable collapse of President Nicolás Maduro's *Chavista* regime, which will come when the Venezuelan military finally decides that it has more to lose by sticking with Hugo Chavez's handpicked successor (and his Cuban overseers) than it would by ousting him. Venezuela will then be in need of immediate and sweeping reforms.

A U.S. strategy of long-term democracy support should focus on civil society, youthful democratic leaders, and victims of *Chavista* misrule. The Obama Administration should also focus U.S. intelligence capabilities on probing and countering Iranian penetration into Venezuela and uncovering the misdeeds of corrupt narco-generals and high officials.

Building a Foundation. Washington should encourage the governments of Latin America to pursue further liberalization of their economies,

1. Quoted in David Luhnow, "The Two Latin Americas," *The Wall Street Journal*, January 3, 2014, http://online.wsj.com/news/articles/SB10001424052702303370904579296352951436072 (accessed January 14, 2014).

dismantle expensive bureaucracies, abandon the habits of over-regulation, and seek to attract more job-creating private-sector domestic and foreign investment.

As The Heritage Foundation's *2014 Index of Economic Freedom* demonstrates, Latin American countries that follow policies built on democratic and free-market values have prospered and will continue to prosper.

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