



# Better Than You Think: Reframing Inter-American Relations\*

Richard Feinberg, Emily Miller and Harold Trinkunas<sup>1</sup>

## Realizing Core Interests and Recognizing Successes

Since the George W. Bush administration, the dominant narrative among observers of United States relations with Latin America<sup>2</sup> has been one of retreat and decline. This alleged decay is attributed to either a lack of attention from the United States, or alternatively to active—even treacherous—efforts by other powers such as Brazil and China to push the United States out of the region. As a result, U.S. interests are described as suffering, and some portray the region as falling into the hands of hostile forces.<sup>3</sup> Among such critics, recent

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policy initiatives by the Obama administration on immigration and Cuba policy are greeted as welcome but overdue and possibly fleeting signs of attention to a neglected regional relationship.

Yet each of these pessimistic assessments underestimates the present state of U.S.-Latin America relations. Latin America and the United States are deeply intertwined demographically and economically. Politically, the fact that recent U.S. administrations have focused greater attention elsewhere in the world is logical and smart—U.S. core interests in Latin America are well protected relative to those in conflict-ridden regions such as the Middle East and Eastern Europe. Properly understood, the relationship of the United States with Latin America in its many manifestations remains deep and adequate for the era in which we live. But the instruments of effective U.S. influence have evolved, and analysts err when they expect the United States to exert its influence in outmoded—and quite possibly counterproductive—ways. Furthermore, the old instruments were never as potent as some nostalgically imagine.

We take core U.S. interests in Latin America to be: (1) progressive, resilient political democracies with respect for human rights; (2) reasonably well-managed, market-oriented economies open to global trade and investment; (3) inter-state peace among nations; and (4) the absence of credible threats to the United States from international terrorism or weapons of mass destruction. We define core interests as those conditions which enhance the safety and wellbeing of the United States and which are universally applicable to U.S. foreign relations.<sup>4</sup> Along these four indicators, U.S. core interests have never been stronger—especially in the two regional powers that account for nearly two-thirds of Latin America's population and gross domestic product (GDP), Mexico and Brazil. This is also true throughout much of the rest of South America, the Caribbean and Central America. While there has been some regression on democracy, human rights or markets in a limited number of states, such backsliding remains the exception rather than the rule. In particularly troubled polities, such as Argentina and Venezuela, we will argue that the present turmoil is largely the product of poor policy choices by governing elites and an end to a decade-long commodity boom, rather than emblematic of the state of U.S.-Latin American relations.

There are other desirable objectives that Latin American countries wish to achieve, such as greater social inclusion and reductions in extraordinarily high rates of violent crime, particularly in Central America and the Caribbean. These are goals that broadly align with U.S. values. But we should be careful to distinguish between core interests and values. When Latin America addresses its own core interests, the United States should certainly wish them well (and consider assisting them when asked) should this align with our values. But Latin America's progress on achieving its own interests should not be a measure of whether U.S. core interests are preserved.

Similarly, a mistake many observers of U.S.-Latin American relations have made is to expect that positive outcomes in the region on economic, political, trade and international security matters readily translate into a common agenda for joint action in global and hemispheric affairs. Rather, well-managed, stable, peaceful and successful Latin American countries are by and large free to pursue their own interests in the present global order. Happily, these interests often coincide with those of the United States. But we should expect them to differ frequently, given that Latin American and Caribbean experiences—historical, political and geostrategic—vary in many significant respects from those of the United States. Similarly, we are often faced with a lack of support for some of our global policies by other generally friendly states, such as Canada, France, Germany, India, Israel, Japan, Saudi Arabia, South Africa and Turkey. In fact, if we look at indicators such as voting in the United Nations General Assembly, all major regions of the world have shown increased independence from U.S. positions since the end of the Cold War.<sup>5</sup> Rather than expect that the United States and Latin America will agree because they share democratic and market values, we should instead look forward to U.S.-Latin American relations that resemble those that the United States enjoys with its other global allies and partners. What are some of the key characteristics of a mature inter-state relationship in the 21<sup>st</sup> century? We should not find it desirable for the United States to employ leverage to manipulate the outcomes of the democratic procedures of our allies and partners. Rather, in recognizing long-term shared interests, we should attempt to find areas to work together for mutual gain. This means building multilateral institutions and rules, asserting and defending common values and creating public goods. As with our allies and partners in Europe and Asia, we should

find ways to confront global governance challenges by working together with Latin America. And we can hope that common initiatives, such as the Trans-Pacific Partnership, will favorably (but indirectly) alter the “behind-the-border” political economy in our Latin American trade partners to create broader constituencies for closer relations. This is the type of relationship that U.S. diplomacy should aim to produce across Latin America.

### Looking Backward

Some who focus on the alleged loss of U.S. influence harken back to a bygone era when (they imagine) the U.S. foreign policy arsenal held a panoply of powerful instruments with which to bend the will of relatively weak neighbors. The United States never possessed the degree of leverage alleged by some U.S. and many Latin American analysts.<sup>6</sup> But the asymmetries of state power and capabilities were wide enough to allow U.S. policymakers to work their will—in concert with local allies—on significant occasions.

U.S. leverage in Latin America was at an apogee from the 1940s through the 1980s. During World War II, the hemisphere mostly aligned with Washington in the struggle against the Axis powers, and nations welcomed U.S. military installations on their soils. Brazil sent an army division to fight in the Italian campaign, and Mexico contributed an air force unit. Latin America served as a major source of commodities to fuel the Allied war effort.<sup>7</sup> When the United States emerged victorious, Latin America saw it as the overwhelming global and regional hegemon. And when U.S. influence appeared to be waning in the wake of the Cuban Revolution in 1959, the Kennedy administration initiated the Alliance for Progress, together with allies in Latin America, as a large-scale, multi-pronged program of bilateral and multilateral economic and security assistance.<sup>8</sup>

During these heady decades, instruments of U.S. policy included: (1) financial resources including bilateral and multilateral assistance as positive inducements when offered and negative sanctions when withheld; (2) economic policy advice; (3) security assistance including arms transfers and military training, counter-narcotics and

other anti-crime programs; (4) covert interventions to bolster friends and in some cases overturn regimes; (5) perceptions of the United States as the regional hegemon, often of exaggerated proportions, which enhanced leverage; and (6) overt military intervention, employed exclusively in the smaller countries in the Caribbean basin (the Dominican Republic in 1965, Grenada in 1983 and Panama in 1989).<sup>9</sup>

### *U.S. Economic Leverage*

At the height of the Alliance for Progress, U.S. foreign assistance peaked at \$5.2 billion in 1964 (in constant 2011 US\$), which amounted to 0.6 percent of the region's GDP and an even higher percentage in some of the smaller countries.<sup>10</sup> When combined with flows from the international financial institutions (IFIs, such as the Inter-American Development Bank (IDB), International Monetary Fund and World Bank), and coordinated by the U.S. Treasury Department, the leverage could be substantial.<sup>11</sup>

By the 1980s, U.S. bilateral assistance had already declined to under 0.2 percent of the region's GDP (and today it is well under 0.1 percent). But the severe debt crisis of the 1980s, which left many countries without foreign exchange reserves, caused the region to turn to the IFIs—sometimes backed by short-term but vital currency swaps from the U.S. Treasury and Federal Reserve Board—for large-scale capital injections and formal debt rescheduling. As an influential member of the IFIs with a substantial voting share, the United States had a significant say in how the multilateral institutions approached Latin America. Financial rescue packages were conditioned upon economic restructuring programs that effectively dismantled the import substitution industrialization (ISI) programs inspired by Latin America's experiences during the Great Depression of the 1930s. In the 1990s, Latin American capitals adopted the "Washington Consensus" of macroeconomic stability (balanced fiscal budgets and restrained monetary policies) and more open trade and investment regimes. To many, it appeared as though Washington was taking advantage of Latin American weakness to impose its will; however, the neoliberal economic reforms were supported by many on the center and center-right in Latin America who recognized that the ISI strategies had run their course.<sup>12</sup> They were in turn implemented

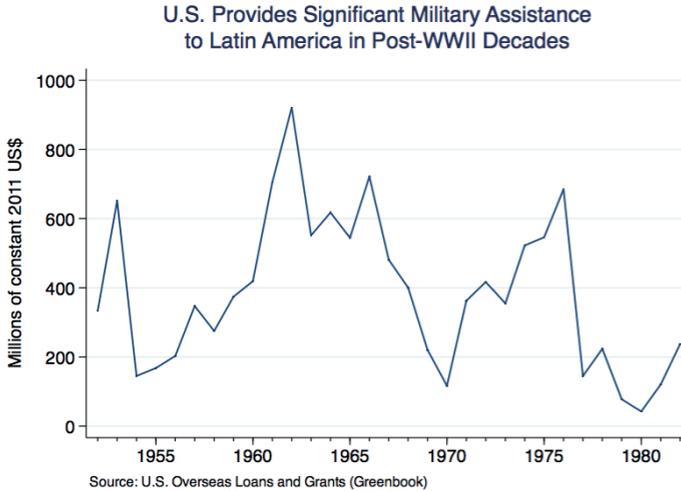
by enthusiastic Latin American technocrats, often trained at leading U.S. graduate schools.<sup>13</sup>

The Washington Consensus has since fallen out of favor in Latin America, and the international community has learned that such far-reaching reforms are best implemented with broad popular support and when tailored to specific local contexts. Over the past decade, competent central banks and finance ministries have vastly improved macroeconomic management across the region, and Latin America's economic performance has improved markedly. Far from operating in the red and desperately seeking external assistance, many Latin America countries have accumulated handsome levels of reserves and favorable balances of trade. There is nothing like a comfortable portfolio of external assets to give a country a sense of well-being and of relative autonomy in international affairs.

#### *U.S. Military Leverage*

In the realm of military and political assistance, the story is rather similar. As shown in Figure 1, the United States programmed relatively large levels of military training and arms sales toward Latin America in the early post-World War II decades, averaging \$325 million per year over the period 1952-1960. Combined with a significant intelligence presence (including the Central Intelligence Agency and Defense Intelligence Agency), U.S. embassies were generally well informed regarding the attitudes and plans of senior military officers—and often activated their networks to influence local policy choices.<sup>14</sup> U.S. presidents on occasion ordered major covert interventions which obtained their immediate attention because of the potential threats to U.S. interests posed by left-leaning regimes and were blind to the risks of 'blow back.'<sup>15</sup>

**Place Figure 1:  
U.S. Provides Significant Military Assistance to  
Latin America in Post–WWII Decades**



*Using Leverage to Support Democratization*

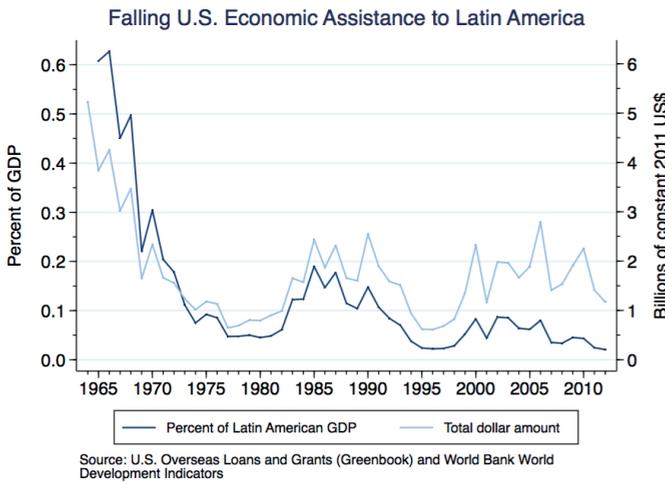
The administrations of Carter and Clinton, as well as the second Reagan administration, undertook a major shift in U.S. policies to favor democracy and human rights globally. In the Southern Cone, President Carter's early human rights policies had a positive effect on goals, but which generated long-term problems for democracy and human rights, both in the target country and throughout the broader region. Notoriously, the overthrow by the CIA of Jacobo Arbenz in Guatemala in 1954 for daring to expropriate large U.S. agricultural holdings contributed to decades of bloody civil wars in that country. It arguably also contributed to the decision by revolutionary Cuba to turn to the Soviet Union for defense against the anticipated U.S. challenge.<sup>16</sup> The 1973 military coup against Salvador Allende, which elated the Nixon White House, engendered much ill-will throughout the region, drove many on the left into closer alignment with Cuba and contributed to the anti-American mindset of generations of leftist politicians across the region. The leadership of the present-day ALBA coalition (Bolivarian Alliance for the Peoples of Our America), sus-

picious of U.S. motives and policies, has its ideological and political roots in the backlash against U.S. support for military rule in 1970s. In retrospect, U.S. officials over-estimated saving lives and supporting democracy advocates during the dark days of military dictatorships, even as the entrenched military governments resisted entreaties to relinquish power. U.S. policies on democracy and human rights made a contribution to this region-wide democratization if for no other reason than because authoritarian regimes could no longer look to the presumed regional hegemon for material and moral support.<sup>17</sup> Thereafter, examples where the United States successfully supported local efforts to re-establish or stabilize democratic institutions are many, including Chile (1989), El Salvador (early 1990s), Guatemala (1993), Dominican Republic (1994), Paraguay (1996) and Peru (2000), among others. In each of these cases, even though local democratizers played the leading role in the successful transition from military rule, the United States employed combinations of carrots and sticks—often designed in close consultations with local and regional allies—to support positive outcomes.<sup>18</sup>

### *Decline of Traditional Leverage*

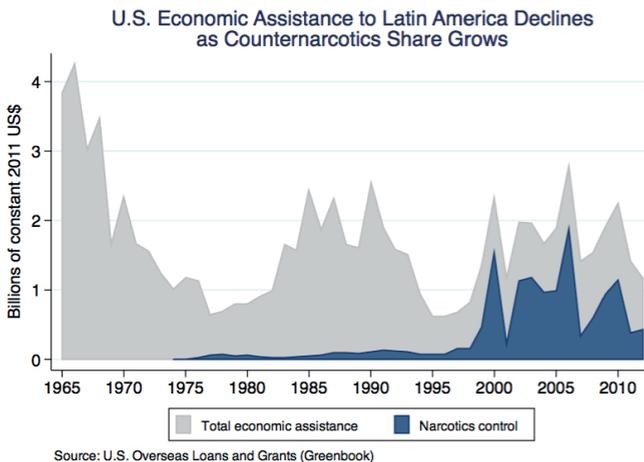
Today, the United States has far fewer levers to pull. Bilateral economic assistance programs have declined in real terms (adjusted for inflation)—falling from a peak of \$5.2 billion in 1964 to \$1.2 billion in 2012<sup>19</sup>—and particularly in relation to the growth of the local economies (Figure 2). If leverage is defined in terms of the ratio of foreign/domestic resources, the decline is precipitous: U.S. economic assistance fell from 0.61 percent of Latin America's GDP in 1965, to 0.19 percent in 1985 to 0.02 percent in 2011. Furthermore, most economic assistance to the region is for narcotics control (Figure 3), which has accounted for, on average, 47 percent of U.S. economic assistance to Latin America since 2000.

**Figure 2:**  
**Falling U.S. Economic Assistance to Latin America**



Similarly military assistance today is negligible in most countries (Figure 4). In Central American nations, U.S. military aid—a mere \$56 million in 2012—accounted for less than 8 percent of domestic military expenditures.<sup>20</sup> In all South American nations, U.S. military assistance makes up less than 1 percent of domestic military expenditure.

**Figure 3:**  
**U.S. Economic Assistance to Latin America Declines as Counternarcotics Share Grows**



This is a far cry from 1960 when U.S. military assistance accounted for between 5 and 35 percent of South American defense budgets.<sup>21</sup> While the U.S. government does not publish data on the country allocation of intelligence resources, it is reasonable to assume intelligence capabilities (other than counternarcotics) are a pale reflection of those deployed during the height of the Alliance for Progress, particularly in light of competing demands for U.S. attention from other crisis-wracked regions of the world.

**Figure 4:**  
**U.S. Military Aid as a Percent of**  
**Domestic Military Expenditure in 2012**

|             |        |
|-------------|--------|
| Nicaragua   | 7,75%  |
| Guatemala   | 5,91%  |
| Honduras    | 5,34%  |
| El Salvador | 3,63%  |
| Mexico      | 1,31%  |
| Colombia    | 0,86%  |
| Paraguay    | 0,30%  |
| Peru        | 0,27%  |
| Ecuador     | 0,18%  |
| Bolivia     | 0,06%  |
| Uruguay     | 0,06%  |
| Argentina   | 0,02%  |
| Chile       | 0,02%  |
| Brazil      | ~0.00% |
| Venezuela   | 0,00%  |

*Source: Author's elaboration based on SIPRI Military Expenditure Database and U.S. Overseas Loans and Grants (Greenbook)*

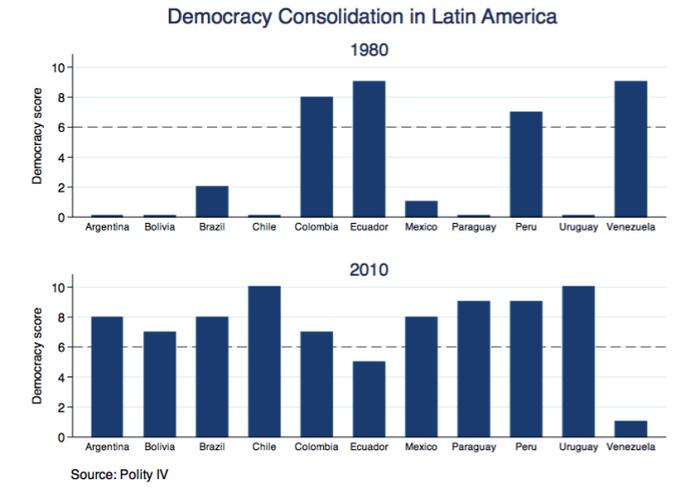
## New Regional Strengths: Positive, Not Negative, Realities

Much of the contemporary U.S. policy toward the hemisphere has its roots in the 1990s. In the wake of the end of the Cold War, the regional agenda became crowded with new initiatives and institutions: the Summit of the Americas, the Free Trade Area of the Americas (FTAA), the Conference of Defense Ministers of the Americas, a reoriented Organization of American States (OAS) focused on democracy promotion and a reinvigorated Inter-American Court of Human Rights. At its core, this agenda was intended to consolidate and give regional institutional weight to core U.S. interests in the region, namely free elections, free markets, free trade and cooperative security. In the wake of the 9/11 attacks, the United States redoubled efforts to secure regional cooperation on combating terrorism and controlling the proliferation of weapons of mass destruction.

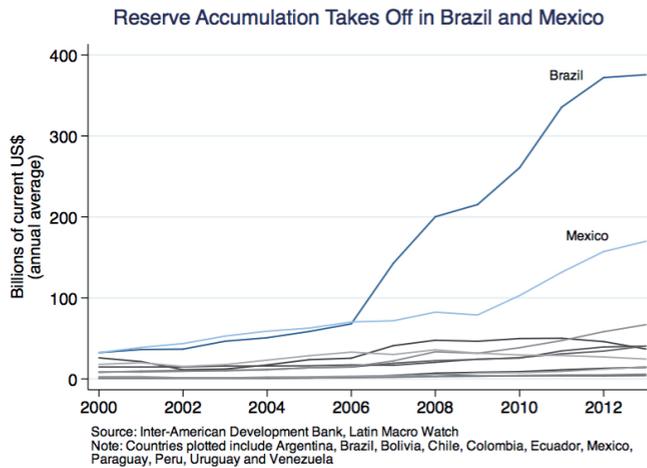
Even if some specific initiatives have run aground, such as the FTAA, or have been troubled, such as recent Summits, the hemispheric agenda of the United States has by and large been achieved. In country after country, international and domestic actors have aligned to produce the triumph of democracy and sustainable market-based economies, leading a wave of democratization and liberalization that has swept the globe since the 1970s. The region experienced its last (brief) interstate conflict between Ecuador and Peru in 1995, and the probability of war in Latin America is vanishingly small, an astounding achievement when compared to present troubles in Europe, Asia and the Middle East. In addition, although international terrorism and proliferation have not vanished from the region, Latin America is far better off than any other part of the world on this security dimension.<sup>22</sup>

In contrast to 1980, democracy is now by and large consolidated, with only a few exceptions of backsliding (shown in Figure 5),<sup>23</sup> and military coups have become increasingly rare. Latin America's democracies have pioneered new forms of political and social inclusion, such as participatory budgeting and conditional cash transfer programs. Civil society has flourished across much of the region, and there is a vibrant media in many countries.

**Figure 5:**  
**Democracy Consolidation in Latin America**

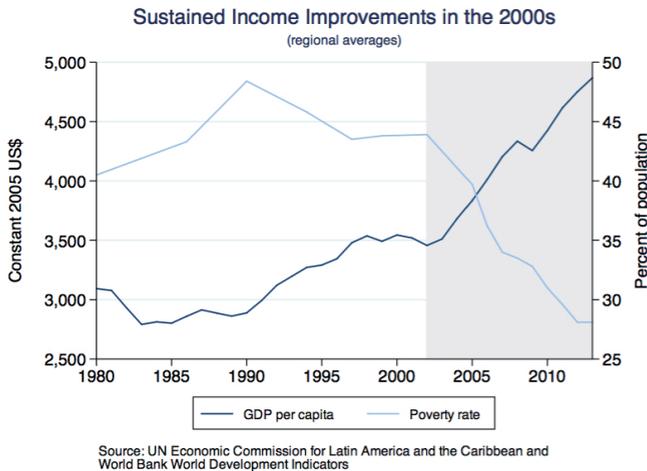


**Figure 6:**  
**Reserve Accumulation Takes Off**  
**in Brazil and Mexico**



Across Latin America, we have generally witnessed stronger economic growth and better macroeconomic management during the past decade than in the previous two. In the wake of the 1980s debt crisis, bouts of hyperinflation and financial crises in the 1990s, regional political and economic leaders have been much more cautious, accumulating substantial international reserves and keeping close watch on inflation. By 2011, the nine largest economies in Latin America had, on average, accumulated reserves equivalent to 16 percent of GDP<sup>24</sup> At the end of 2013, Brazil was sitting on \$376 billion and Mexico on \$177 billion (Figure 6). Inflation has fallen dramatically from over 200 percent between 1990 and 1995 to an average of six percent since 2010.<sup>25</sup>

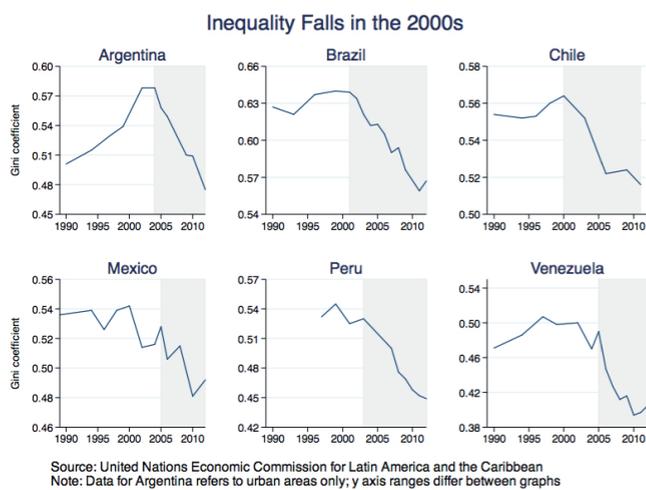
**Figure 7:**  
**Sustained Income Improvements in the 2000s**



This improved macroeconomic management has produced significant reductions in poverty and improvements in social inclusion. The size of the middle class in Latin America has also nearly doubled since 2002,<sup>26</sup> contributing to economic growth and new demands for improved governance. Figure 7<sup>27</sup> illustrates the sustained GDP per capita growth and poverty reduction beginning in 2003, which contrast with the income stagnation of the 1980s and modest improvements of the 1990s. Similarly, Figure 8 demonstrates consistent downward trends

in inequality in some of the region's largest economies.<sup>28</sup> While Latin America remains the most unequal region of the world,<sup>29</sup> it is clear that sound macroeconomic policies have contributed to improved social equity, either directly through broad-based growth, or indirectly through enabling states to finance targeted redistributive policies.

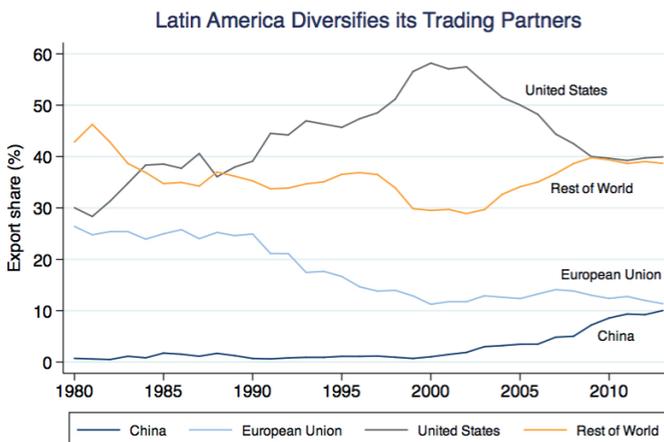
**Figure 8:**  
**Inequality Falls in the 2000s**



The region's rapid recovery from the 2008 global financial crisis is evidence of the strength of the macroeconomic policies and institutions that have prevailed thus far. This has meant that much of the region has needed fewer loans and external assistance, and also that Latin American leaders have less need to adhere to external conditions for financial support. For example, in 2014 the Brazilian economy slowed down but its external reserves are so large that it does not need to revert to the multilateral institutions for funds or advice. Rather, international markets and competitive pressures are tilting the internal debate in Brazil toward more market-friendly policies, as signaled by the recent appointments of a more orthodox finance minister, Joaquim Levy, and market-oriented politicians to the agriculture and industry portfolios.

Latin America has also expanded its participation in global trade and its range of trading partners. In conjunction with a fall in average tariffs from 39 percent in 1985 to 10 percent in 2005, Latin America's export volume quadrupled.<sup>30</sup> There is now a broad array of free trade agreements in place across the region, not only among Latin American states but also with China, Europe and the United States. This tangible multi-polarity offers nations more options for economic development and export-led growth. For example, growing commodity exports toward China during the 2000s (Figure 9) reflects rising demand relative to traditional Latin American export markets such as Europe and the United States. Latin America's diversified trade is not the "fault" of U.S. policy inattention but rather a reflection of structural shifts in the global economy. For Latin America, this is a healthy development because it reduces the risks of being tied to the economic prospects of any one region of the world; vulnerabilities of course remain, as South America depends heavily on commodity exports and Central America and Mexico are subject to the ups and downs of the U.S. economy.

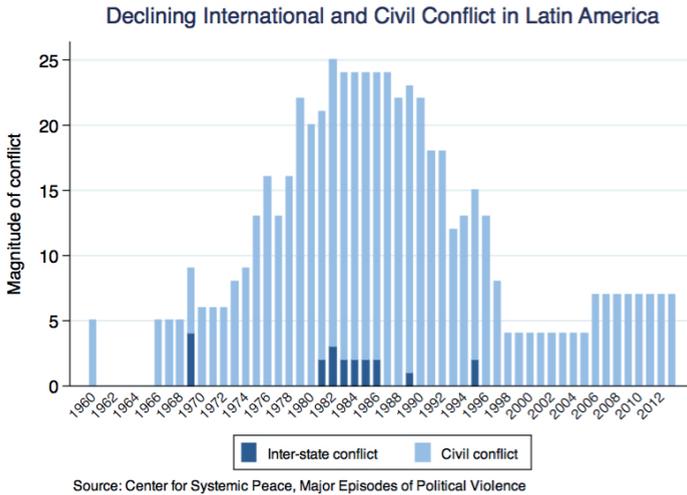
Figure 9



Inter-state peace in Latin America has become the status quo. States in the region rarely militarize disputes, and civil conflicts have declined as well; Figure 10 plots civil and international conflicts as measured by magnitude scores that reflect “societal-systemic impact.”<sup>31</sup> According to Figure 10, the only nations currently plagued by major episodes of civil violence are Colombia and Mexico, both drug-fueled conflicts.<sup>32</sup> Even though most states in the region continue to share some disputed borders, such sources of friction are by and large the province of diplomats and lawyers arguing cases at the International Court of Justice in The Hague rather than of armies.<sup>33</sup> Latin America has in place a nuclear-weapon-free zone, and the two leading nuclear technology powers, Argentina and Brazil, have a longstanding non-proliferation institution, the Brazilian-Argentine Agency for Accounting and Control of Nuclear Materials (ABACC), that monitors their mutual rejection of the pursuit of nuclear weapons.<sup>34</sup>

While fears about international terrorism in the region have occasionally made headlines in the United States post 9/11, the last major incidents occurred in 1992 and 1994 when Hezbollah agents attacked the Israeli Embassy and Jewish Cultural Center in Buenos Aires. In its most recent report on terrorism in the region, the U.S. State Department maintained that the majority of terrorist attacks in Latin America were committed by the Revolutionary Armed Forces of Colombia (FARC). However such tactics by transnational criminal organizations and insurgents in the hemisphere are largely aimed at domestic audiences rather than linked to international terrorist networks.<sup>35</sup>

Figure 10



The bottom line is that since the end of the Cold War, Latin America has advanced far and fast along a number of political, security, economic and social dimensions. It is impossible to untangle the relative weight of the external and internal factors contributing to this felicitous outcome, but it is safe to say that Latin American countries have made themselves much more democratic, peaceful and prosperous, and that past instruments of U.S. influence, when smartly deployed, have largely worked themselves out of a job. These achievements are deeply compatible with long-range core U.S. interests in regional peace, democracy and human rights, market-based economies and free trade. As such, a return to a mid-20<sup>th</sup> century interventionist foreign policy is neither feasible nor desirable.

### Problem Countries: Mostly Not Our Fault!

In spite of overall progress, there are a number of countries in Latin America that still face significant problems in terms of what we see as the four core U.S. interests in the region. We group these countries into two categories: (1) countries with self-inflicted policy wounds; and (2) countries where misguided U.S. policy choices have contributed to negative outcomes. Ultimately, a stronger and more autonomous Latin America will be better positioned to take the lead on finding solutions to ad-

dress countries in the former category. The United States may or may not become positively involved in the solutions developed by countries in the first category, but we argue that it should certainly focus attention on undoing areas in which its policies have been counterproductive.

### *Latin American States Sometimes Make Poor Policy Choices*

Argentina and Venezuela, two of the most troubled countries in the hemisphere today, present particularly telling examples of how poor policies choices by some in Latin America have undermined prospects for democracy and economic growth even in countries with abundant resources and wealth.

Since 1999, when President Hugo Chávez came to power, Venezuela has been the beneficiary of a remarkable boon of oil rents as the price of oil rose from \$11 per barrel to over \$110 in 2012.<sup>36</sup> Since 95 percent of export earnings are derived from the sale of petroleum owned by the state, the result was an unprecedented increase in government revenues. This fueled a concentration of political power in the executive, vast expansion of government spending, nationalization of many domestic industries, and state controls on currency flows, travel and imports of consumer goods. These choices were made deliberately by President Chávez and his successor, Nicolás Maduro, in the belief that a socialist economic model would best improve the life of Venezuela's poor and working class citizens. Initially, social inclusion improved and poverty declined. But once national oil production began to fall and oil prices dropped even faster, Venezuela's economy suffered from dramatic levels of scarcity, inflation over 60 percent in 2014 and a deepening recession.<sup>37</sup> As its popularity declines, the government has progressively restricted political liberties, increased government influence and ownership of the media and placed growing restrictions on civil society. While President Maduro has blamed much on the United States and recent targeted sanctions, in practice Venezuela's present woes are predictable results of fifteen years of classically populist—and unsustainable—policies that expanded government spending, reduced revenues and investment, created massive incentives for corruption and capital flight, and increased reliance on imports. This has produced a perfect storm as the commodity boom has ended and state revenues are dropping precipitously.

Argentina has also run into economic troubles that are largely a consequence of ill-conceived domestic policy choices and the end of the global commodity boom. In the wake of a historic default in 2001, Argentina underwent one of its most successful growth episodes in history. Under President Nestor Kirchner, domestic demand-focused policies paired with a growing international commodity boom produced an average growth rate of 8.5 percent from mid-2002 to mid-2008.<sup>38</sup> However, efforts to tax rapidly growing agricultural exports of soy, wheat and sunflower seeds provoked strong resistance from a powerful agricultural lobby, leading to unrest in the streets and bitter partisanship in national politics.<sup>39</sup> In contrast with Chile's successful use of a stabilization fund to manage booming rents from copper production, the Argentine government has been unable to balance the interests of the agricultural sector with a largely urban population. As a result, financial windfalls of the commodity boom were spent rather than saved, and growing partisanship set the stage for poor economic and political outcomes during the administrations that followed. Under President Cristina Fernández de Kirchner, the negative impact of waning commodity prices compounded problematic macroeconomic management. Surpluses have turned to deficits, reserves have dwindled and inflation continues to rise; frustration with corruption and crime has sparked protests against the government. Though government spending is at a 50-year high at 46 percent of GDP, this has not translated into an effective provision of public services or infrastructure investment.<sup>40</sup> Fernández's successor will be elected in October 2015 and will inherit no small challenge in adeptly navigating a more prosperous way forward. However at least a partial correction of past policy errors seems likely, if for no other reason than to respond to tightening resource constraints, as recognized by each of the major presidential aspirants.

*Counternarcotics: The United States Should Stop Being Part of the Problem*

As a counterpoint to self-destructive policies by Argentina and Venezuela's leaders, the 40-year long "war on drugs" is an example of a U.S. policy that has done more harm than good to our relations with the region. Even when it made momentary advances in reducing local production and shipments into the United States, country recidivism was all too common. The so-called "balloon effect"—where temporary success in

one country displaces trafficking to more vulnerable states—reflects how unintended consequences frequently erased apparent gains. The United States has also been unwilling to address the distressing collateral damage to national institutions and civic culture, which in many cases pushed the human costs of counternarcotics policies onto our neighbors in the hemisphere.

But we should be clear that Latin America shares responsibility for much of the criminal violence in the region, drug-related or otherwise. In Argentina and Brazil, for example, per capita rates of cocaine consumption have been increasing steadily and at least in Brazil, are approaching parity with those of the United States.<sup>41</sup> Choices by Mexico and Central America to apply “mano dura” policies to fight crime have contributed to rising levels of violence. The United States cannot fundamentally reform Latin American law enforcement or judicial and prison systems, nor can it cure the endemic corruption that makes it so difficult for some countries to undertake these reforms themselves. Ultimately, it requires elite commitment in each of these countries to undertake the institutional, policy and anti-corruption reform agenda that might make a meaningful difference on drug-related criminal violence.

Consequently, the U.S. should focus on elements that are under its control: (1) limiting the flow of small arms toward the region, (2) crafting evidence-based policies designed to reduce illegal narcotics consumption and address public health effects in the United States, and (3) using targeted interdiction strategies designed to affect drug flows in territories within our jurisdiction or on the high seas. We can certainly assist Latin American states with policy, judicial, and prison reform efforts, particularly in Mexico and Central America. But we should acknowledge the need to rethink our counternarcotics policies so that we stop being part of the problem.<sup>42</sup>

## Implications for U.S.-Latin America Relations

If many of our traditional instruments of influence are no longer effective or desirable, and U.S. core interests in Latin America are largely secured, and then what does this imply for future U.S. policy

toward the Americas? We affirm that a regional U.S. policy toward the Western Hemisphere still makes good sense, organized around bolstering our four core interests and regional institutions—such as the IDB, OAS, and the periodic Summits of the Americas—that undergird them. But beneath that broad umbrella, the United States needs subsets of strategies well-tailored to specific national circumstances. We can identify at least three groupings of states in the Americas, and each group has its own implications for how we develop U.S. foreign policy. The first is the wealthier states characterized by sound macroeconomic policies and vibrant democracies. The second is the smaller developing states, principally in Central America and the Caribbean, that face severe challenges on a range of domestic issues such as criminal violence, climate change and energy security. The third is the states where domestic politics have brought to power leaders that are not interested in cooperating with the United States.

### *The Prosperous Democracies*

U.S. relations with the most prosperous and stable countries in the region (such as Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and Uruguay) should focus largely on finding areas where positive change can be achieved through pooled efforts. These countries are now upper-middle-income democracies, so the incentives we can deploy, such as bilateral development assistance, are not available on a scale that would prove influential. But there are many areas for expanded collaboration on global governance on issues such as climate change, public health and international trade. These countries have significant capabilities and can afford to make meaningful contributions to the international order. In addition, there are many areas where the United States and Latin America have opportunities to achieve region-wide gains, such as in the areas of free trade, education, innovation, infrastructure development and energy security. In specific relationships, such as the one between the United States and Mexico or Central America, security co-operation will remain important to address criminal violence and illicit cross-border networks.

By far the largest economy in region, the United States can afford to err on the side of generosity in crafting agreements with the middle-income countries designed to produce mutual gains. This approach

would accelerate the creation of a deepening web of cooperation with the more stable democracies in the region, much as exists with our closest partners and allies in the European Union and East Asia.

### *The Fragile Caribbean Basin*

On the other hand, the vast size and wealth of the United States relative to Central America and the Caribbean means that positive instruments of diplomacy, such as development assistance and access to technical advice, can make a difference in states with very difficult domestic problems. This is particularly true for the most troubled states in the region, such as the violence-plagued countries of the Northern Triangle (El Salvador, Guatemala and Honduras) and Haiti, which is still recovering from a massive earthquake in 2010. The United States can provide positive incentives for change as well as leadership to overcome collective action problems. It has in fact experimented with this approach in creative initiatives such as the Millennium Challenge Corporation (MCC). Programs designed around transparent eligibility criteria, significant targeted assistance and evidence-based policy advice and evaluation will attract governments in the region committed to similar approaches. Governments dedicated to such progressive principles are the most desirable partners for the United States, and buy-in by local elites increases the prospects for successful policy outcomes. Similar principles could be applied in developing programs to foster transitions to a sustainable energy matrix or security sector reform. This approach provides countries with tools and resources to achieve positive change while acknowledging that governments in the region have greater autonomy and more options when it comes to outside assistance.

We should also note the resiliency of many of these societies in the face of serious challenges, and the progress that has been made. In the English-speaking Caribbean, social strains have not caused the abandonment of democratic institutions. And in Central America, groups on the right and the left that once turned to violence to respond to political and social challenges are now participating in more consensual democratic procedures—with occasional notable exceptions such as Honduras in 2009. While economic growth has fallen short of aspirations in some countries, social indicators have continued to improve throughout most of the Caribbean Basin.

### *Rejectionist Leaders*

We should not be overly concerned that a small number of states in the region are led by leaders that are not in favor of working with the United States. Here, our policy should be one of watchful patience, monitoring for the emergence of concrete threats while domestic politics change in due course. As we have shown throughout this paper, the broad sweep of history in Latin America trends steadily toward democracy and free markets. One of the implications of democracy is that leaders will occasionally come to power who, for reasons of ideology or ambition, oppose the United States. Yet in practice the threat such countries have posed has been quite mild as these countries do not have the capabilities to effectively damage core

U.S. interests in the region. Ecuador and Bolivia, for example, have generally recognized constraints imposed by the global economy and geo-political realities, the rhetoric of their leaders notwithstanding. Even Venezuela, which could temporarily afford to ignore global economic constraints due to vast oil wealth generated during the recent commodity boom, was not able to significantly reverse the regional trend toward democracy, free markets and free trade. Now that global oil prices have collapsed and Venezuela is nearing bankruptcy, even close allies such as Cuba are starting to tuck closer to the United States rather than risk the side-effects of too close an association with a failing economy. But when necessary, we should work with stronger nations in the region through ad hoc coalitions to avoid violent breakdowns in troubled countries and most urgently, to engineer a soft landing in Cuba.

### *Realistic Expectations*

There are also outcomes we should not expect from our relations with Latin America. We should not expect that just because Latin American countries have by and large become more democratic and market-oriented that they will automatically agree with us on foreign policy and global governance issues. Greater macroeconomic stability, diversified trade patterns and democratic politics naturally translate into greater foreign policy autonomy. We should especially not expect Latin America to join in support of the more interventionist and confrontational aspects of U.S. global ambitions where Latin America

does not see its interests or domestic politics as aligned with those of the United States. For example, the Bush administration soured relations with Chile and Mexico when it pressed hard for them to support the 2003 Iraq invasion. Because of their historical experience (with the United States, in large part), Latin American countries are almost universally skeptical of policies that violate the sovereignty of states or are premised on military intervention. Thus, we should partner where we find consensus on common courses of action and respectfully manage those areas where we disagree.

This is particularly true of our relationship with Brazil which, as an emerging power, brings its own set of concerns to the table. In particular, Brazil seeks to shape the global order to better accommodate its interests, and as the seventh largest economy in the world, it has become a relevant player in international forums. Some elements of Brazil's foreign policy establishment are particularly critical of the United States' role in the world, but more broadly, many feel that the United States has not sufficiently acknowledged Brazil's rise. The recent National Security Agency (NSA) espionage scandal particularly damaged bilateral relations. Internationally, Brazil has aligned with the BRICS, even the non-democratic ones such as China and Russia. In South America, it has pursued a regional integration agenda; and in competition with the United States and Mexico for regional influence, it has created institutions that deliberately exclude North America.<sup>43</sup>

These divergences between the United States and Brazil have two implications. First, they underline that we cannot expect U.S. policies based on a hemisphere-wide agenda to be fully successful given Brazil's current approach foreign policy. Second, we should not pigeonhole Brazil as merely a very large Latin American country, but should instead think of it as another rising power seeking both global and regional influence—alongside India, China, Russia and others—with possibly serious implications for the international order.

### *Assessing Extra-Hemispheric Risks*

While vigilance is always in order, we do not see reasons today for becoming unduly alarmed at the role of outside powers in the region. Leaders from Russia and Iran, the traditional specters that have

haunted U.S. threat scenarios, have visited the region during the past decade, and trade and arms deals have been announced from time to time. However, cooperation with extra-regional actors has so far led to more smoke than substance.<sup>44</sup> Even at the height of their commodity-boom fueled wealth, Russia and Iran's actions were not able to produce concrete effects on core U.S. security interests. The falling price of oil will further diminish their ability to influence the region.

As China has become wealthier and more developed, its state-owned and private investors have looked abroad for better returns on their capital. Due to expanded trade ties, Latin America is a natural destination. Much of this investment is commercially driven; where it is not, as in the case of Venezuela, the Chinese are likely to learn the negative consequences of substituting political for market criteria when selecting investment partners. It is also unrealistic to expect U.S. overseas development assistance budgets to match the level of state-owned enterprise investments and government loans that China can currently make available to the region. But there is a manner in which Chinese influence in the region is prejudicial to U.S. interests. Chinese diplomats care little for democratic institutions and Chinese investors too often are impervious to good governance issues such as fiscal transparency, environmental stewardship and international labor standards. The United States should therefore continue to work with U.S. firms, NGOs and international institutions to persuade China to upgrade the standards of behavior of its international investors, and to persuade Latin American hosts that it is not in their best interests to join in a competitive and destructive race to the bottom.

### *Burnish the Image of the United States in Latin America*

There has always been a bedrock attraction for the U.S. model in Latin America, as public opinion polling data still supports<sup>45</sup>—and the United States should do what it can to bolster that positive image. Alas, an important threat to U.S. prestige in the Americas today is our own dysfunctional domestic politics. Partisan gridlock in Washington, D.C. over vital issues such as health care and climate change, immigration and trade are hard for many Latin Americans to grasp. The dark side of U.S. counter-terrorism policy post-9/11 also damaged Latin American perceptions of U.S. support for human rights, and

the highly unpopular Iraq invasion, perceived in Latin America as an unwise and illegal intervention in another developing country, further eroded U.S. standing in the region. The decades-long U.S. policy of sanctions on Cuba has been nearly universally rejected by Latin America.

The United States should do better in addressing its domestic problems which have regional implications. Executive branch officials in both Republican and Democratic administration have generally grasped the correct answers: comprehensive immigration reform, energy cooperation and expanded commercial relations. However, the increasingly fractured U.S. political structure—with its extreme bureaucratic checks and balances in the interagency process and far too many veto points on Capitol Hill and in the judiciary—has blocked or slowed progress on each of these initiatives.

These domestic and foreign policy flaws detract from U.S. prestige, and this is not something that can be solved by “more attention” or better public relations. Alas, it is not that “we have this great story to tell, we just need to tell it better.” For the story itself has become somewhat less appealing in the 21<sup>st</sup> century, which is a much deeper problem than deficits in diplomacy. Many Latin Americans know us too well and they see us for what we are, not as we would like to appear to be. All the more reason to address those elements at home that have lessened the U.S. power of attraction, while recognizing the positive trends in the region and building upon emerging opportunities to work together.

## **Toward a 21<sup>st</sup> Century Inter-American Relationship**

Felicitously, in recent years, the United States has moved toward a more mature relationship with the states in the Americas. The Obama administration has already begun addressing some of the major irritants that have damaged U.S. prestige in recent years and retarded improvement in U.S.-Latin America relations, including immigration, freer trade and U.S.-Cuba relations. At the same time, the end of the commodity export boom is likely to take the economic wind out of the sails of some of the loudest anti-American voices in the region, and renew the focus of all commodity exporters on macroeconomic

stability and more sustainable economic development. Central America, the Caribbean and Mexico, closely tied to the United States by trade and investment, are likely to see improved growth prospects as the U.S. economy accelerates. Taken together, this signals that we are at a potential turning point for relations between the United States and the rest of the hemisphere, an excellent time to take stock and look closely at the effectiveness of existing policies.

The Obama administration's dramatic shift in policies toward Cuba illuminates the wisdom of reconsidering long-held policies and beliefs. The ruling Cuban Communist Party—the one remaining holdout from the Cold War in the Americas—recognized that its drive to modernize its economy requires more normal and respectful relations with the United States. Following the facts, as President Obama put it, Cuba will likely be removed from the list of state sponsors of terrorism (indeed, Cuba is hosting the talks aimed at ending the decades-long civil war in Colombia) and its security forces keep a tight lid on criminal activities at home, which creates a hostile environment for international criminal syndicates. As Cuba gradually evolves, can anyone doubt that the economy will become more open and market-oriented, something that would benefit core U.S. interests?

Given the evolution of Latin America and of the United States' role in the region, we should frame our policies as follows:

1. Target our policies toward Latin America to focus on collaboration on global governance with the upper-middle income countries, technical assistance for the fragile states of the Caribbean Basin, and watchful patience with rejectionist leaders as we wait for history to take its course.
2. Acknowledge the lack of a hemispheric consensus on many issues and focus on ad-hoc coalitions of partners. The Summit of the Americas may survive as a platform for building relationships and might occasionally yield tangible accords, but we should not expect it to produce a common comprehensive agenda.
3. Rethink and retarget our problematic counternarcotics policies, both to rebalance away from their dominance in the assistance agenda to Latin America and to focus on dimensions of the problem that fall under U.S. jurisdiction and control.

4. Extend the principle of evidence-based programs, systematically evaluated based on transparent metrics, to other dimensions of our economic and security assistance to the region.
5. Manage the challenges posed by our relationship with Brazil within a broader framework designed to promote constructive contributions by all rising powers to a stable and peaceful international order.
6. Ensure that China's inevitable economic presence in the region contributes positively to Latin America's development without eroding hard-won political and social gains.

The bottom line is that we should keep in mind a few simple wisdoms for navigating this complex age. We should acknowledge the heartening successes of our policy toward Latin America over the past three decades. But we must adapt our instruments of diplomacy for the 21<sup>st</sup> century, focus on core interests—democracy, markets, international peace and an absence of terrorism or proliferation—and address the crises of the moment from the proper perspective. We should be mindful of areas where our highly polarized domestic politics damage our image abroad, and seek out creative compromises that also bolster inter-American relations. Where real problems exist in the Americas, the United States needs to better understand the underlying root causes; we should devote our energies to problems over which we may have some positive impact and accept that many will be best addressed by increasingly capable Latin American states. Likewise, we should expect and encourage Latin America to actively contribute to resolving critical issues in global governance. In the hands of diplomats with a firm grip on the true trends dominating the Western Hemisphere, this positive vision of future U.S.-Latin American relations is a likely but no means certain outcome and U.S. policymakers should work toward transforming it into reality.

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## NOTES

1. We would like to recognize the outstanding support that Ashley Miller and Anna Prusa provided during the editing of this policy brief. We would also like to thank the external and internal peer reviewers for their thorough and thoughtful comments that greatly contributed to the paper. Any errors and omissions are the responsibilities of the authors alone.
2. Unless otherwise noted, data and graphs on Latin America refer to the following 18 countries: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. Caribbean islands have generally been excluded from the data presented due to inconsistencies in data availability.
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10. For purposes of data availability, U.S. economic assistance is measured as a percentage of Latin American gross domestic product (GDP) rather than as a percentage of government expenditure. World Bank general government final consumption expenditure data is not available for Belize and Panama prior to 1980 or for Paraguay prior to 1991. GDP makes a fair proxy because government expenditure has expanded proportionately with GDP in many countries (i.e., government expenditure as a percentage of GDP has remained relatively stable). In some cases, expenditure has increased faster than GDP, making U.S. economic assistance as a percentage of Latin American GDP a conservative estimate of U.S. economic influence in the region. In 2012 when data is available for both measures, U.S. economic assistance to the region amounted to 0.13 percent of Latin American government consumption expenditure, and 0.02 percent of Latin American GDP. With either measure, U.S. economic aid is negligible.
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19. Of this \$1.2 billion, \$544 million was programed for Colombia and \$298 million for Central America.
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25. Ibid.
26. The middle class grew from approximately 104 million people in 2002 to 199 million people in 2010, accounting for 19 and 33 percent of the population, respectively. The middle class is defined as those living on \$10-50/day PPP Michael Penfold and Guillermo Rodríguez Guzmán, *La Creciente Pero Vulnerable Clase Media. Patronos de Expansión, Valores y Referencias*, Políticas Públicas y Transformación Productiva, no. 17 (CAF Banco de Desarrollo de América Latina, 2014), <http://scioteca.caf.com/handle/123456789/325>.
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