

February 4, 1992

TOWARD THE NEXT AMERICAN CENTURY: BUILDING A NEW PARTNERSHIP WITH LATIN AMERICA

INTRODUCTION

The end of the Cold War is forcing the United States to rethink its policy toward Latin America and the Caribbean and redefine its interests in the region. U.S. policy toward the Americas after World War II was to prevent the spread of Soviet-sponsored communism.

With the communist threat now largely defeated, however, the U.S. no longer needs to focus primarily on containing communism. Instead, America can concentrate more on expanding free trade throughout the hemisphere, promoting free markets, fighting the narcotics trade, and supporting the growth of democratic institutions. While security concerns such as Fidel Castro's Cuba, the Haitian military dictatorship, and local terrorism still remain, they are not, nor should they be, the driving force of America's policy toward Latin America. Washington, for the time being at least, has been liberated from the worry that a major overseas enemy power will gain a stronghold in this hemisphere and use that position to harm the U.S.

Fundamental Change. George Bush seems to understand that U.S. relations with Latin America have changed fundamentally. More than any previous President, he has demonstrated a commitment to forging a constructive and mutually beneficial relationship with the region. He has opened free trade area talks with Mexico. He has launched what he calls the Enterprise for the Americas Initiative (EAI), which promises to create a free trade zone from Alaska to the Tierra del Fuego at the southern tip of South America, spur investment in the region, and tackle the debt problem. And he has stepped up U.S. cooperation with Peru and other South American countries in the campaign to curb the illegal drug trade.

Communists Isolated. Bush is right to emphasize the importance of Latin America to the U.S. The collapse of the Soviet Union has isolated the communists in Latin America. The January 16 peace accord between the government of El Salvador and the communist guerrillas would not have happened if Moscow were still in the business of sponsoring communist subversion in Latin America. Cut off from their overseas lifeline, Latin American communists will not be able to destabilize the hemisphere and block efforts by the U.S. to spread democracy and create free trade and free markets.

The end of the Cold War, meanwhile, has boosted U.S. prestige in Latin America, making Buenos Aires, Mexico City, Santiago, and other capitals much more willing to cooperate with Washington.

Another reason why Bush is right to emphasize the importance of Latin America is because North, Central, South America, and the Caribbean may be on the verge of becoming an economic giant. After the North American Free Trade Agreement (NAFTA) between the U.S., Canada, and Mexico is signed and approved, other free trade area agreements will likely follow with such countries as Chile, Colombia, Costa Rica, and Venezuela.

If, as expected, still others join, this could create a vast free trade area encompassing all of the Americas. This could be an insurance policy against protectionism in Asia and Europe. For one thing, a free trade area of the Americas would induce countries in Asia and Europe to keep their markets open to U.S. goods; otherwise they might not be able to compete with the new vibrant economies of the Americas. For another thing, the vast free trade area would create new markets in this hemisphere for U.S. goods if Asian and European markets were closed to U.S. products. A free trade area of the Americas also could increase investment opportunities for U.S. businesses and develop more secure and cheaper sources of raw materials such as oil for the U.S.

And if the U.S. is worried about competing with Japan, then an Americas free trade area would create the economic muscle that would ensure U.S. victory in the competition.

Security and Threats. Finally, Latin America is still very important to U.S. security. The Panama Canal remains critical to U.S. security and trade. And although less threatening than before, Cuba could erupt into violence as Castro tries to hold onto power, pouring thousands of refugees into the seas off Florida, and possibly even unleashing some desperate Cuban attack on U.S. territory. Instability in Haiti, meanwhile, creates a huge refugee problem for the U.S. And illegal drug smugglers are joining forces with such terrorists as the Maoist *Sendero Luminoso* (Shining Path) in Peru to kill Americans and terrorize democratically elected governments.

The Bush Administration has what is truly a historic opportunity to advance the revolutionary changes which are occurring in the Americas. The 21st century could be the next American century, not just for the U.S., but for all the Americas. If the U.S. and its Latin American partners could create a free trade zone from Alaska to the southern tip of South America, some 700 million people,

twice the population of the European Community, would become part of an increasingly prosperous economic community.

While Bush is off to a good start in this task, much more needs to be done. He must make sure that Congress approves the free trade accord with Mexico and that the Enterprise for the Americas Initiative is not suffocated by bureaucratic inertia, a lack of planning, and increasing protectionism in the U.S. Congress.

To ensure that the bold U.S. experiment in Latin American policy succeeds, Bush should:

X Complete quickly the North American Free Trade Agreement (NAFTA).

This pact between the U.S., Canada, and Mexico should be Washington's number one priority in Latin America. The trade pact will help the U.S. compete against the European Community and East Asia in the production and export of goods and services by creating a zone of 360 million people with a combined annual economic output of over \$6 trillion.

X Convene a summit of Latin American leaders to promote the Enterprise for the Americas Initiative.

Among the Latin American participants should be leaders of the free market revolutions of the region: Argentine President Carlos Menem, Chilean President Patricio Aylwin, Mexican President Carlos Salinas de Gortari, and Venezuelan President Carlos Andres Perez. Such a summit would make the EAI a project of all of the Americas, not just of the U.S. Latin American leaders who could give the EAI new life with new ideas and proposals.

X Create an Enterprise for the Americas Initiative task force of U.S. officials to coordinate policy and promote the EAI on Capitol Hill.

The task force should consist of relevant assistant secretaries from the Departments of Commerce, Defense, Education, Justice, State, and Treasury, plus officials from the U.S. Trade Representative's office, the Environmental Protection Agency, the Drug Enforcement Administration (DEA), and the Immigration and Naturalization Service (INS). The task force should be chaired by Under Secretary of the Treasury for International Affairs David Mulford. Its purpose is to push the EAI through the bureaucracy, to coordinate the various policies from the different agencies, convince Congress of the Initiative's merits, and to highlight the political importance of the initiative.

X Negotiate as many free trade agreements as possible with Latin American Countries.

Free trade is infectious. Already Chile and other countries want to negotiate free trade area agreements (FTAs) with the U.S. The Bush Administration should take them up on their offers.

X Make acceptance of the "Index of Economic Freedom" a precondition of foreign aid.

The Index is a system for monitoring a nation's progress in free market reforms. All foreign aid to the region should be conditioned on whether the recipient countries are pursuing the reforms listed in the Index. These include privatization of state-owned enterprises, lower tax rates, and free trade. Only by

using the Index can Washington be assured that U.S. aid is contributing to free market reforms.

X Isolate Cuba and Haiti.

These two Caribbean island nations are the last remaining dictatorships in Latin America. It is in the U.S. interest that their dictators are ousted and that democratic stability take root. To do this, Washington should continue the trade embargoes and other sanctions against Cuba and Haiti, while enlisting the help of regional leaders like Argentina's Menem, Mexico's Salinas, and Venezuela's Perez in pressuring Castro to reform his communist system. Since a negotiated solution to the Haiti crisis is increasingly remote, the U.S. should enlist support from regional democracies for a possible military intervention in Haiti to restore democracy and help demilitarize the country.

X Strengthen democratic reforms in El Salvador, Nicaragua, Panama, and other Central American countries.

Partly through U.S. efforts, democracy has come to these war-torn countries of Central America. The U.S. has a security interest in helping these nascent democracies work, and in preventing the civil wars and dictatorships that plagued the region in the 1980s from returning. The U.S. therefore, should promote military reform and free market policies in these countries and offer modest aid to fund such reforms. Washington too must maintain its military assistance programs to help host governments safeguard against drug trafficking and the resurgence of terrorist threats.

X Protect anti-drug, counterterrorism, and military assistance programs from congressional cuts.

The Bush Administration in 1991 spent approximately \$373 million in the war on drugs, terrorism, and military assistance in Latin America and has requested \$445 million for 1992. This money is to be used for helicopters, surveillance planes, patrol boats, and other equipment, plus education and training programs. Congress wants to cut this assistance, arguing that El Salvador, Peru, and some other Latin American countries abuse human rights. They also fear that American forces will become overly involved in helping fight the region's insurgencies. Human rights abuses in these nations, however, are not as serious as congressional liberals claim. What is more important is that terrorism and illegal drug smuggling be curtailed.

X Explore and promote free market-based solutions for protecting the environment.

Latin America has many environmental problems. The clearing of the Amazon rain forest and Mexico City's polluted air and water are only two of the most well known. To combat pollution and the hasty depletion of natural resources, the Bush Administration should press Latin American countries to adopt free market solutions to environmental problems. Examples: Washington should encourage Latin American governments to expand private property rights, privatize state-owned industries, and channel funds into research programs to develop market-based solutions to environmental problems. The U.S. and other Western nations also should pursue aggressively debt-for-nature swaps, by which it and other

countries holding the huge foreign debts of Latin American countries could cancel their interest payments on restructured debt, allowing them to be paid instead to special funds for environmental programs.

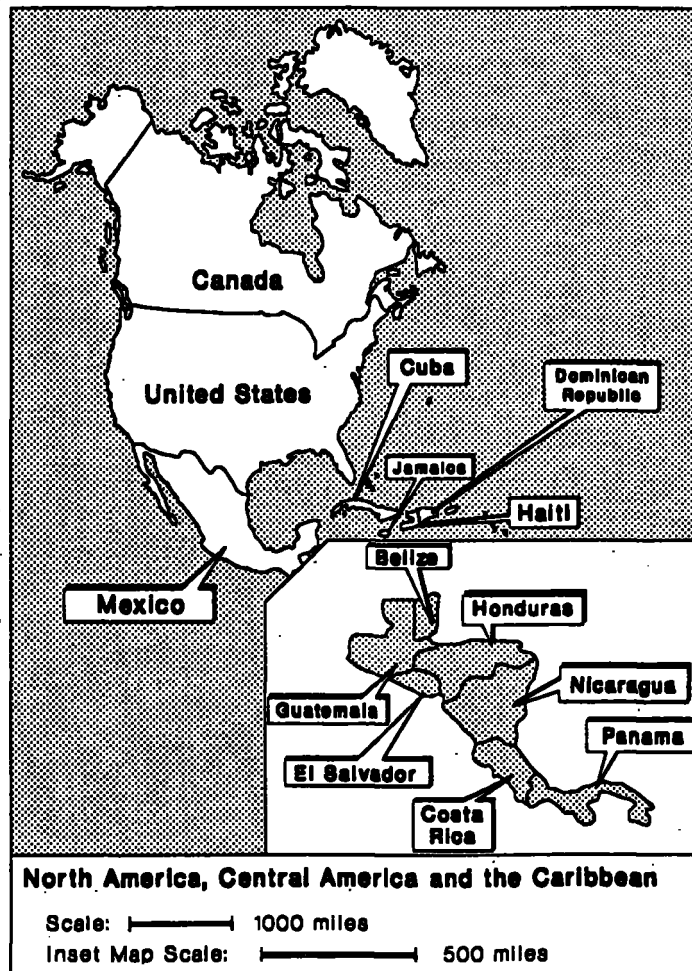
X Make the Organization of American States (OAS) more effective.

Now that Latin American countries are generally more willing to cooperate with the U.S. on a host of issues, the Washington, D.C.-based Organization of American States can become more effective. The OAS, for example, could declare an embargo on Cuba as it has done with Haiti and could call for democratic and human rights reforms in Cuba. This would diffuse criticism by Castro that the U.S. is seeking to dictate events in Cuba.

NORTH AMERICAN FREE TRADE AGREEMENT

Latin America is experiencing a free market revolution unparalleled almost anywhere in the world. Statist and populist regimes in Argentina and Mexico gave way in the 1980s to governments committed to free trade, the privatization of state-owned industry, lower taxes, and the free market deregulation of the economy.

The most impressive example of Latin America's free market revolution is the negotiations for a free trade area among the U.S., Canada, and Mexico. The three countries began talks last June 12 on the North American Free Trade Agreement—or NAFTA—which would remove all tariffs on goods and services among them. A free trade pact between Canada and the U.S. became law on January 1, 1989. The NAFTA will build on this U.S.-Canadian accord, creating the world's largest open market, consisting of 360 million people, with an economic output of more than \$6 trillion. It



also is expected to accelerate North America's economic growth, bolster its global economic competitiveness, create new jobs, and improve the standard of living for its citizens.

This trading zone will be 25 percent larger in gross domestic product (GDP) than the European Community and thus give North America enough economic muscle to challenge the emerging unified market in Europe and an East Asian market dominated by Japan.¹ The NAFTA will offer Americans cheaper goods, increase U.S. exports to Mexico, and make U.S. exports more affordable for the

rest of the world. It also will create jobs for Americans, reduce illegal immigration from Mexico, help fight drug trafficking in Mexico, and serve as a model for similar agreements with other Latin American countries.²

Special Relationship. In fact, if there is a case for a special U.S. relationship with any country, it is with Mexico. Bordering the U.S. for nearly 2,000 miles, rich in resources, and home to 88 million people, Mexico will affect the U.S. profoundly during the next century. An economically thriving and politically democratic Mexico can benefit the U.S. enormously, just as an impoverished and chaotic Mexico can create serious economic, social, and even security problems for the U.S.³



- 1 Michael G. Wilson, "Promoting Prosperity on Both Sides of the Border," *InterAmerican Opportunities Briefing*, Vol. 1, No. 1 (April/May 1991), p. 1.
- 2 For more information see Wesley Smith, "Refuting Six Myths About the U.S.-Mexico Free Trade Accord," Heritage Foundation *Backgrounders* No. 818, March 22, 1991.
- 3 Burton Yale Pines, "Ten Principles of Conservative Foreign Policy," Heritage Foundation *Talking Points*, April 1991.

The NAFTA is central to the future of U.S.-Mexico relations. If completed, the free trade pact would help bring the Mexican economy to a First World level. It would improve U.S.-Mexico cooperation on many important issues, such as stopping the flow of illegal drugs into American cities, controlling violence on the U.S.-Mexican border, cleaning the environment, curtailing illegal immigration, and protecting patents, copyrights, and other intellectual property rights. If, however, the negotiations were to collapse, U.S.-Mexican relations would undoubtedly sour. It would also be a terrible blow to U.S. efforts to spread free trade throughout Latin America.

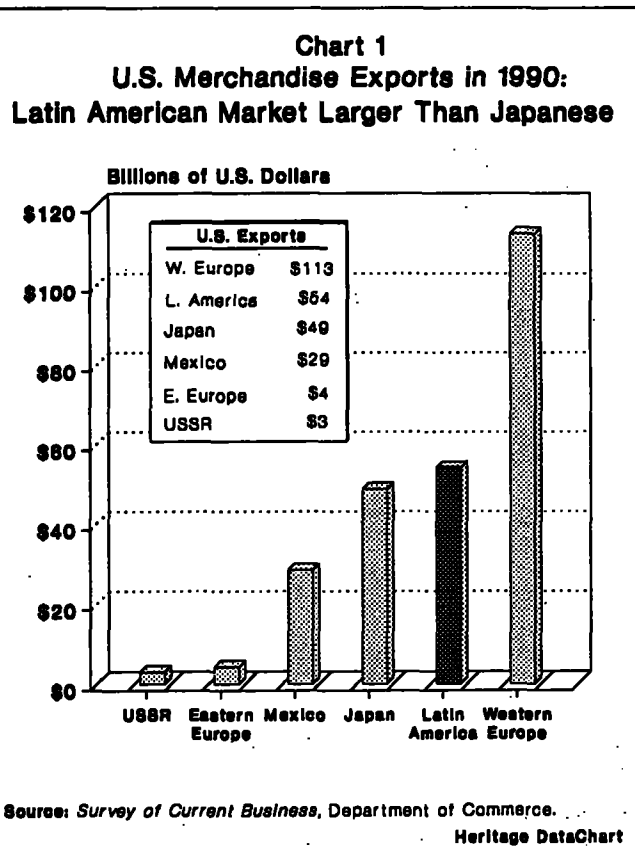
THE ENTERPRISE FOR THE AMERICAS INITIATIVE

This dream of a free trade area spanning all the Americas is embodied in Bush's Enterprise for the Americas Initiative (EAI). Announced on June 27, 1990, the EAI is designed to expand trade and investment ties between the U.S. and Latin American and Caribbean nations.

The EAI is the most comprehensive U.S. policy initiative for Latin America ever announced by Washington. If successful, it will form the backbone of U.S.-Latin American relations. In contrast to previous U.S. policy proposals for the region, such as John F. Kennedy's 1961 Alliance for Progress, which sought to improve economic standards and bolster democracy through foreign assistance, the EAI relies primarily on trade and investment, not aid.

EAI's three goals are:
 1) to create a free trade zone in the Americas,
 2) to stimulate foreign investment in the region,
 and 3) to cancel some \$12 billion in U.S. government loans to countries that start to pursue free market reforms. The Bush plan has received strong support throughout the Americas.

The goal of expanding trade is critically important to the U.S. Some 25 percent of U.S. job growth between 1987 and 1989 was in the export sector. If successful, the EAI will create a 700 million person hemisphere-wide free trade



zone with the combined annual economic output of some \$7 trillion, as compared to \$5.8 trillion for the European Community and \$2.6 trillion for Japan and the Western Pacific.

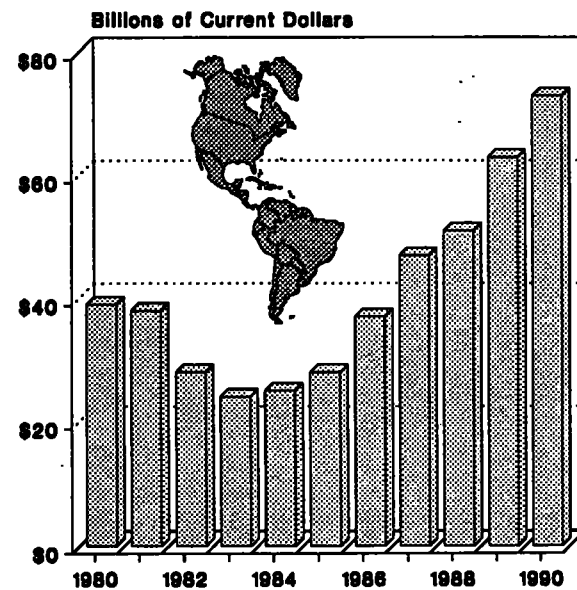
The best route for creating this free trade zone is for the U.S. to negotiate a series of bilateral free trade area (FTA) accords with Latin American countries. Washington also will seek to negotiate free trade pacts with blocs of countries, such as the Central American nations. After Mexico, Chile is next in line for an FTA with the U.S. because it has moved farther and faster than any other Latin American country in promoting free market reforms.⁴

The U.S. also could negotiate with regional free trade blocs, such as South America's Southern Cone Common Market (MERCOSUR), formed in March 1991 among Argentina, Brazil, Paraguay, and Uruguay.⁵ Already, the Bush Administration has signed free trade "framework agreements" with every major country in the Americas.

These agreements establish bilateral trade and investment councils to negotiate the step-by-step elimination of specific trade barriers or the resolution of trade problems. These agreements also set out general principles of trade relations between two countries, establish trade dispute mechanisms, and create working groups to deal with the impact of free trade on the various economic sectors.⁶

The second EAI goal of expanding U.S. investment will be met by establishing a new \$1.5 billion "investment fund" to be administered by the Inter-American Develop-

Chart 2
U.S. Direct Investment in Latin America:
Since 1983, Total Investment Has Tripled



Note: Latin America includes Central America, South America and the Caribbean Basin.

Source: U.S. Department of Commerce.

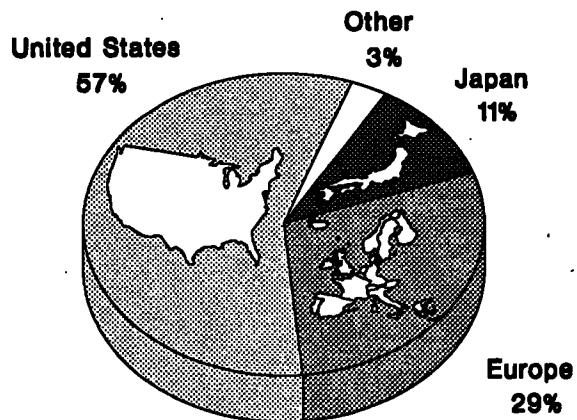
Heritage DataChart

- 4 For more information see Michael G. Wilson, "A U.S. Role in Chile's Democratic and Economic Reforms," Heritage Foundation *Background* No. 837, June 20, 1991.
- 5 The presidents of Argentina, Brazil, Paraguay, and Uruguay signed on March 26, 1991, the Treaty of Asuncion which formalizes an agreement to form a Southern Cone Common Market. This free trade area, to be completed by 1994, will have a population of 190 million and a total GDP of \$416 billion.
- 6 "Enterprise for the Americas: The Trade Initiative Fact Sheet," Washington, D.C., Office of the United States Trade Representative, July 3, 1990.

ment Bank (IDB), whose members are governments from the Americas and Western Europe. The IDB loans money to governments and private enterprises to promote economic development in Latin America.⁷ The purpose of the EAI investment fund will be to support free market reforms in Latin America and to create a more favorable investment climate in the region. The loans will pay for technical advice and financial support for privatization programs; worker training, education, and health projects; and the modernization of transportation systems and port facilities. The U.S. would contribute \$100 million a year to the fund and would seek matching grants from Japan and Europe.⁸ The U.S. Congress, however, has yet to appropriate money for the fund for fiscal 1992, thereby risking Japanese and European participation.

The U.S. has a direct stake in opening up investment opportunities in Latin America. Over 25 percent of all American exports go to overseas affiliates of U.S. companies worldwide. U.S. firms in Latin America will broaden this overseas market for U.S. goods. Foreign investment opportunities, moreover, allow U.S. companies to become more competitive globally by taking advantage of "co-production" opportunities and lower wage rates in foreign countries. Co-production is a process by which a company can use the best resources from several countries to produce a more competitive and higher quality good. Because of liberalized investment laws in Chile, for example, total U.S. direct investment in Chile surged from \$47 million in 1984 to \$1.3 billion in 1990, a 2,751 percent increase, or 44 times as fast as the growth of direct U.S. investment worldwide.

Chart 3
Latin American Imports From Industrial Countries: U.S. Dominates Europe, Japan
1989



Note: Latin America includes Central America, South America and the Caribbean Basin.

Source: United Nations.

Heritage DataChart

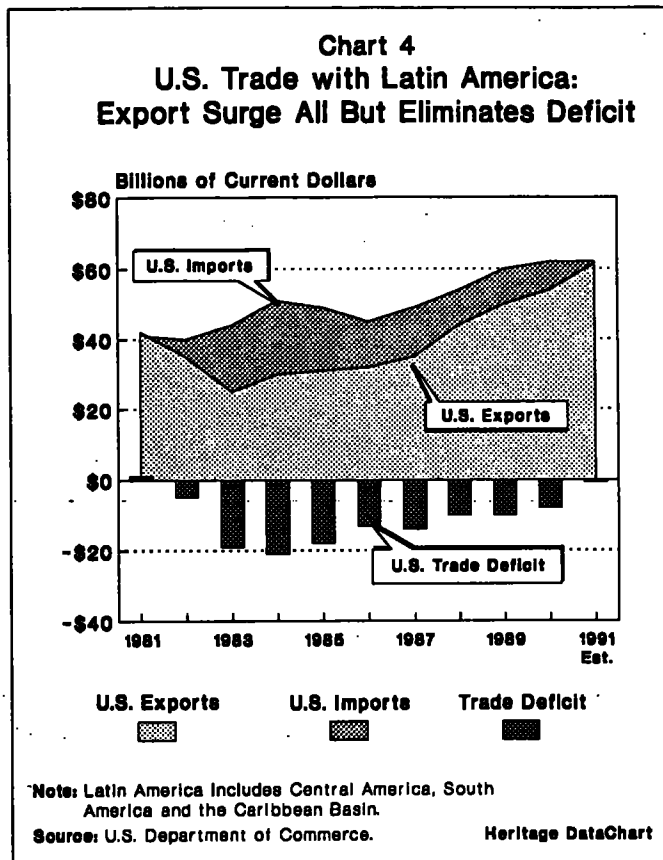
7 The IDB is a multilateral lending institution that provides loans to Latin American countries.

8 "The Enterprise for the Americas Initiative: Issues for Congress," *CRS Issue Brief*, July 17, 1991, p. 5.

The economic stagnation that hangs over much of Latin America will disappear only when the third EAI goal of reducing the region's foreign debt is met. The Latin American debt crisis of the early 1980s stunted economic growth throughout the region and curtailed trade and investment opportunities. By the end of the 1980s, Latin America's external debt totaled some \$450 billion. The U.S. lost an estimated \$130 billion in trade opportunities in Latin America between 1982 and 1988, mainly because of the debt crisis. America's trade with its southern neighbors, meanwhile, fell from a surplus of \$3 billion in 1981 to a deficit peaking at \$18 billion in 1984. Now, however, the region's economies have improved and stabilized. U.S. merchandise exports to Latin America have climbed from \$31 billion in 1986 to an estimated \$62 billion in 1991, creating an estimated 620,000 additional U.S. jobs.

Moreover, the U.S. commands a 57 percent share of the Latin American market, compared to 29 percent for Europe and 11 percent for Japan. Last year, the U.S. trade deficit with Latin America was only \$1.6 million.

Debt Swaps. The Bush Administration plans to reduce Latin America's foreign debt through a variety of means. It plans, for example, to reduce or forgive some \$12 billion of government-to-government debt on a case-by-case basis. Under the EAI debt program, the U.S. will negotiate reductions on the principal of Latin American debt and accept interest payments on the restructured debt in local currency. This method is called a "debt-for-nature swap" because the debt is "swapped" for or invested in some project to clean the environment. It is similar to the "debt-for-equity swaps" used successfully in the late 1980s in Chile and Mexico; there foreign investors purchase part of a country's debt from a creditor's bank and exchange the debt for local currency, bonds, or state-owned equity shares from the debtor government. Debt-for-equity swaps also should be advanced under the EAI to help the region's largest debtor nations, including Argentina, Brazil, Colombia, and Mexico.⁹



To mark the first anniversary of the EAI, Chile last June 27, became the first country to benefit from the EAI's debt reduction program. The U.S. canceled approximately \$15.7 million of its \$39.3 million food aid debt. Also because of the EAI, Chile now pays the interest on its remaining \$23.6 million food aid debt, not to the U.S. Treasury, but to local Chilean environmental projects. The White House is expected to ask Congress to approve legislation forgiving even larger portions of Chile's debt to the U.S., which totals \$448 million.⁹

The U.S. and Foreign Aid

The driving force behind most U.S. aid to the Third World traditionally has been political rather than economic. Foreign assistance often was used as bribe money, designed to purchase favors in countries deemed strategically important to the U.S., or to help prevent communist, pro-Soviet forces from gaining power. With the Cold War over, however, Washington is rethinking its aid policy not only in Latin America, but also throughout the globe.

The poverty that Latin America has endured for decades is the result mainly of failed statist and socialist economic policies and of government corruption. Yet blame also must be shared by Western nations and multilateral institutions like the World Bank, the International Monetary Fund (IMF), and the Inter-American Development Bank (IDB). These nations and institutions have poured billions of dollars into the region since the 1960s. This money merely kept the failing economic system afloat, nothing was done to change the economic dynamics. As the leading aid donor to the Americas and supporter of the World Bank and the IMF, the U.S. cannot escape blame. The more than \$400 billion that Washington has given to the developing world since World War II reflects U.S. generosity and concern. But it also reflects a flawed policy, because much of the money has been misspent and stolen by corrupt officials.

Private Sector Channels. The Bush Administration has been changing how U.S. aid is given to Latin America. U.S. financial assistance increasingly is channeled through private sector projects. It is used to support free market reforms and programs to attract foreign investment, helping fund private programs to improve transportation systems, worker training programs, and port facilities.

This year, the U.S. will give about \$1.8 billion in aid to Latin America. Some \$1.4 billion will be for economic development and humanitarian aid. Some \$400 million will be security assistance to supply helicopters and weapons, training, and military exchange programs. This form of aid is vital to Peru and other fragile democracies that are fighting illegal drug traffickers and communist insurgencies.

⁹ Lauren Weiner, "Bush Forgives \$15 million in debts to reward Chile," *The Washington Times*, June 28, 1991.

THE SWEEP OF DEMOCRACY THROUGH LATIN AMERICA

The Western Hemisphere today is on the verge of becoming the world's first completely democratic hemisphere. Except for Cuba and Haiti, democracies flourish throughout all of North, Central, South America, and the Caribbean. Bold actions by Washington, including the December 20, 1989, invasion of Panama to oust dictator Manuel Antonio Noriega and the decade-long U.S. support of the Contra freedom fighters in Nicaragua helped to pave the way for democracy in the region.

While there is little that Washington can do directly to spearhead democracy in the developing world, and while it should not launch a crusade for democracy, Washington quietly and effectively can help create the conditions in which it can flourish. This includes pushing for free trade and free markets because they create the wealth, the domestic stability, and the respect for law that are the necessary preconditions for the growth of democratic institutions.

From Military Rule to Democracy: A Decade of Democratic Reforms

The past decade has witnessed the most widespread revolution of democracy in the history of mankind. While the most dramatic example may be the collapse of the East bloc and the Soviet Union, this revolution actually began in Latin America in the early 1980s. Examples: Argentina became democratic in 1983, Uruguay in 1985, Paraguay in 1989, Nicaragua in 1990, and Chile in 1990. Only 37 percent of the region's 357 million people in 1980 were governed by democratically elected leaders. Today, over 96 percent of the region's estimated 450 million inhabitants live under democratic governments.¹⁰

Many of the new democratic leaders of Latin America—including Carlos Menem of Argentina, Alfredo Cristiani of El Salvador, and Alberto Fujimori of Peru—were elected not so much because of their political platforms, but because of widespread voter disappointment in the failed socialist economic policies of their predecessors. In El Salvador, for example, the left-of-center Christian Democratic party lost the presidency to the conservative Alfredo Cristiani of the National Republican Alliance (ARENA) party in March 1989 not only because of voter disaffection with the government's handling of the war against the communist guerrillas, but also because of the public's perception that Christian Democratic President Napoleon Duarte's socialist economic policies were a failure. Argentina's Menem was elected in May 1989 because of opposition to Raul Alfonsin's terrible economic record of high inflation, economic recession, and high unemployment.

10 Keith L. Miceli, Executive Vice President of the Association of American Chambers of Commerce in Latin America, Testimony before the House Subcommittee on Western Hemisphere Affairs, September 27, 1990, pp. 1-2.

Selected Countries of Central America, South America and The Caribbean

Argentina

Type of Government: Republic
Area: 1,068,000 sq. miles
Trade with U.S.: \$2.8 billion (1990)

Belize

Type of Government: Parliamentary
Area: 8,862 sq. miles
Trade with U.S.: \$155 million

Bolivia

Type of Government: Republic
Area: 424,000 sq. miles
Trade with U.S.: \$348 million

Brazil

Type of Government: Federal Republic
Area: 3,285,000 sq. miles
Trade with U.S.: \$13.6 billion

Chile

Type of Government: Republic
Area: 292,183 sq. miles
Trade with U.S.: \$3.2 billion

Colombia

Type of Government: Republic
Area: 439,600 sq. miles
Trade with U.S.: \$5.4 billion

Costa Rica

Type of Government: Democratic Republic
Area: 19,724 sq. miles
Trade with U.S.: \$2 billion

Cuba

Type of Government: Communist Dictatorship
Area: 42,792 sq. miles
Trade with U.S.: \$0

Dominican Republic

Type of Government: Republic
Area: 18,810 sq. miles
Trade with U.S.: \$3.5 billion

Ecuador

Type of Government: Republic
Area: 109,454 sq. miles
Trade with U.S.: \$2.2 billion

El Salvador

Type of Government: Republic
Area: 8,121 sq. miles
Trade with U.S.: \$811 million

Guatemala

Type of Government: Republic
Area: 42,030 sq. miles
Trade with U.S.: \$1.6 billion

Haiti

Type of Government: Military Dictatorship
Area: 10,710 sq. miles
Trade with U.S.: \$834 million (Trade Embargo
Placed on Haiti Following Sept. 30 Coup)

Honduras

Type of Government: Republic
Area: 43,266 sq. miles
Trade with U.S.: \$1.1 billion

Jamaica

Type of Government: Parliamentary
Area: 4,242 sq. miles
Trade with U.S.: \$1.6 billion

Mexico

Type of Government: Federal Republic
Area: 761,400 sq. miles
Trade with U.S.: \$59.1 billion

Nicaragua

Type of Government: Republic
Area: 49,985 sq. miles
Trade with U.S.: \$83 million

Panama

Type of Government: Republic
Area: 30,185 sq. miles
Trade with U.S.: \$1.1 billion

Paraguay

Type of Government: Republic
Area: 157,000 sq. miles
Trade with U.S.: \$363 million

Peru

Type of Government: Republic
Area: 496,100 sq. miles
Trade with U.S.: \$1.6 billion

Uruguay

Type of Government: Republic
Area: 68,020 sq. miles
Trade with U.S.: \$481 million

Venezuela

Type of Government: Republic
Area: 352,050 sq. miles
Trade with U.S.: \$13 billion

Mindful of how they came into office, these and other democratic leaders of Latin America see their top priority as turning around their moribund economies, but they also understand that doing so is the best way to engender the growth of democratic institutions.

PROTECTING U.S. SECURITY INTERESTS IN THE AMERICAS

With the end of the Cold War and the halting of most former-Soviet and Eastern European support for revolutionary movements in the Americas, U.S. security efforts in the region should focus mainly on combatting drug trafficking and terrorism. After the Sandinista regime in Nicaragua collapsed in February 1990, Cuba remained as the sole communist dictatorship in Latin America. It is also increasingly alone globally. Since last August's failed *putsch* in Moscow, former Soviet and Russian officials have been turning against Castro. Former Soviet President Mikhail Gorbachev vowed on September 11, 1991, to remove all of the Kremlin's estimated 7,000 military and intelligence personnel from Cuba and end Moscow's economic subsidy of Castro. Total Soviet economic subsidies to Cuba for 1991 fell to \$1.7 billion from \$4.5 billion in 1989. Then last November 19, Russian President Boris Yeltsin signed a decree freezing all negotiations on all future Russian oil exports agreements with Cuba.

The other major communist threats in Latin America are the Farabundo Marti National Liberation Front (FMLN) in El Salvador, and the guerrilla insurgencies in Colombia, Guatemala, and Peru. Despite the historic January 16 peace agreement signed between the Cristiani government and the Salvadoran rebels, the FMLN will remain a threat to El Salvador's stability until they are demobilized and fully incorporated back into society.

Targeting Americans. Terrorism against American targets remains a threat in the region. In 1990, roughly two-thirds of all anti-U.S. terrorist attacks worldwide took place in Latin America. U.S. citizens, businesses, and diplomatic interests were the principal targets. Terrorists appear to be targeting the U.S. mainly because of Washington's stepped-up campaign against the international narcotics trade and because of its support for the region's increasingly conservative, pro-free market democracies. The Shining Path and Tupac Amaru Revolutionary Movement (MRTA) in 1990 launched roughly twenty attacks against the U.S. Embassy, American banks, and other U.S. interests in Peru. Despite this high number of attacks, only two Americans were killed in the region in 1990—one in Panama City, Panama, and the other in Cuzco, Peru.¹¹ The danger to Americans, however, remains unabated. This January 12, the Maoist Shining Path in Peru claimed responsibility for shooting down a UH-1H helicopter with a Soviet-made surface-to-air missile, killing all three Americans aboard.

11 "Patterns of Global Terrorism: 1990," Washington, D.C.: United States Department of State, April 1991, pp. 18-19.

U.S. citizens are not the only foreign targets. Last July 12, the Shining Path executed three Japanese engineers working at an agricultural research facility in Huaral, Peru, a town fifty miles North of Lima. In Peru and Colombia, terrorist groups enriched by involvement in drug trafficking have launched attacks against international oil companies and other enterprises. There also is evidence that Arab terrorists, including the Libyan-backed Abu Nidal Organization, are expanding into Latin America.¹² During the Persian Gulf war, several bombings occurred against U.S. and European targets; responsibility was claimed by Arab terrorist groups.

U.S.-Latin American Anti-Narcotics Cooperation

Latin America is the major supplier of illegal drugs to the U.S. It is estimated by U.S. government officials that all of the cocaine, 71 percent of the marijuana, and 25 percent of the heroin smuggled into the U.S. today originate in the region.¹³ Because of this, the Bush Administration has made the fight against the Latin American drug trade a major component of its foreign policy. Cooperation with Mexico in the war on drugs, for example, has improved dramatically over the past few years. With the help of U.S. intelligence information, airplanes, helicopters, and training, Mexico seized more drugs between 1988 and 1992 than during all previous Mexican governments combined.

The key component to U.S. drug war in South America goes by the name of the Andean Initiative. This five-year, \$2.2 billion program, originated at the Andean Drug Summit between Bolivia, Colombia, Peru, and the U.S. in Cartagena, Colombia, on February 15, 1990. At this meeting, Bush discussed coordination efforts to combat the drug trade in these Andean countries and pledged strong U.S. anti-drug support. Through the Andean Initiative, the U.S. provides economic, military, and law enforcement assistance and training to battle the drug cartels. Through a March 1990 agreement, for example, the U.S. gave some \$19 million in equipment and training to Peru's National Police to support counter-narcotics operations in the upper Hualluga Valley in Central Peru.

TOWARD THE NEXT AMERICAN CENTURY

The collapse of the Soviet empire and the defeat of communism allow the U.S. to forge a new policy toward the Americas. The region's move toward democracy and free markets may very well make the 21st century the century of all the Americas. North, Central, and South America could join with the Caribbean in a vast free trading market. It should be the aim of U.S. Latin American policy to transform this dream into a reality.

12 Robert S. Greenberger and John Walcott, "More U.S. Firms, Individuals Targeted as Terrorism Spreads in Latin America," *The Wall Street Journal*, February 2, 1989.

13 For more information see The National Narcotics Intelligence Consumers Committee Report 1990, U.S. Drug Enforcement Administration, June 1991.

While the Bush Administration already has begun this task, much more needs to be done. The Bush Administration should:

X Complete quickly the North American Free Trade Agreement (NAFTA).

Completing the free trade pact between the U.S., Canada, and Mexico should be Washington's top priority in Latin America. The NAFTA will eliminate most tariff and non-tariff barriers between the countries and allow for the free trade of goods and services from the Yukon in Alaska to the Yucatan in Mexico. So doing, it will spur the economic growth that creates jobs throughout North America. The U.S. Commerce Department estimates that roughly 538,000 American jobs are tied to U.S. exports to Mexico. Half of these jobs are a direct consequence of the trade liberalization that Mexico has pursued since 1986. NAFTA, moreover, will help the U.S. compete against the European Community and East Asia. It will create a free trading zone of 360 million people with a combined annual economic output of over \$6 trillion.

The NAFTA will serve as the cornerstone for the Enterprise for the Americas and other free trade agreements in the region. It also will help lock into place the sweeping market reforms that have taken place under Mexican president Carlos Salinas de Gortari and will encourage continued democratic progress in Mexico. Strategically, the NAFTA will bolster U.S. security interests by providing for a more prosperous and stable Mexico on America's southern 1,933-mile border.

X Convene a summit of Latin American leaders to promote the U.S. Enterprise for the Americas Initiative.

So far, the EAI has not been coordinated sufficiently with Latin American nations. While Latin American leaders strongly support the Bush plan, they complain that they have little input in the development of the plan. They also fear that the growing protectionist mood in the U.S. will kill the EAI.

To correct these problems, Bush should announce that the U.S. invites Latin American leaders to meet at a summit in the U.S. to discuss the EAI. A preliminary conference could be held in a Latin American capital such as Santiago, and should be attended by the free market leaders of Latin America—Menem of Argentina, Aylwin of Chile, Salinas of Mexico, Perez of Venezuela, and many others. This meeting would set an agenda for the full summit sometime next year.

Leaders at the EAI preparatory conference could focus on six key areas:

- 1) Promoting free trade and market policies;
- 2) Establishing a timetable for signing free trade agreements with the U.S. and each other;
- 3) Developing a multilateral investment fund for the EAI with Japanese and European participation;
- 4) Speeding up debt-for-equity and debt-for-nature swap programs; and

5) Building the political and public support needed to promote the EAI in the U.S. and Latin America.

6) Helping address the region's security problems.

Besides getting Latin American countries involved in the EAI, a regional summit would transform the EAI from a U.S. to an all-American initiative.

X Create an Enterprise for the Americas Initiative (EAI) task force of U.S. officials to coordinate policy.

This interagency committee should consist of the relevant assistant secretaries from the Departments of Commerce, Defense, Education, Justice, State, and Treasury, plus officials from the U.S. Trade Representative's office, the Environmental Protection Agency, the Drug Enforcement Administration, and the Immigration and Naturalization Service. Its chairman should be Under Secretary of the Treasury for International Affairs David Mulford. Its purpose should be to cut through bureaucratic red tape, to coordinate the policies of the different departments and to promote the EAI on Capitol Hill. By making a senior member of the Treasury Department chairman, the EAI task force should benefit politically from having the White House's attention.

As a start, this task force should ask the International Trade Commission, an independent and bipartisan U.S. government agency that rules on disputes concerning trade and reports on the effects and benefits of freer trade, to prepare studies on what impact the EAI could have on the U.S. and Latin America. Creation of an EAI task force, meanwhile, would demonstrate to Latin American governments confidence that Washington is serious about the EAI and would signal to Congress that the Bush Administration intends to move ahead with the plan.

X Negotiate as many free trade agreements as possible with Latin American Countries.

While the Bush Administration should concentrate the bulk of its resources and personnel on quickly concluding the trade pact with Canada and Mexico, it should not ignore other countries seeking to negotiate free trade pacts with the U.S. Already, in fact, the U.S. has signed free trade framework agreements with all major Latin American countries. These agreements have launched talks on lowering trade barriers and expanding investment. They also have created trade and investment working groups to monitor commerce and promote free trade policies leading to an eventual FTA. Chile, Colombia, Costa Rica, and Venezuela, for example, are ready to begin FTA negotiations with Washington immediately.

U.S. Trade Representative Carla Hills and the Department of Commerce, curiously, balk at beginning free trade talks immediately with these countries. They want to postpone such talks with other Latin American countries until after the NAFTA is made law, probably in early 1993. They complain that they are short of personnel, and that they need to concentrate on Mexico and on the Uruguay Round of the multilateral international trade talks, the so-called General Agreement on Tariffs and Trade (GATT). The Bush Administration, moreover, ap-

parently fears that free trade accords could become an issue in this year's presidential campaign.

Delaying FTA negotiations until after the November 1992 election, however, would be a mistake. **First**, the U.S. government has sufficient resources to negotiate FTAs with any country ready to do so, like Chile. **Second**, these negotiations should be completed while Bush still has the special trade negotiating power granted by Congress known as fast track authority. Congress granted this to Bush last June, and it expires in May 1993. Under fast track authority, Congress agrees to vote either yes or no on a trade accord. This means that Congress will not amend such an accord.

Third, the sooner the U.S. strikes free trade agreements with its key trading partners in Latin America, the sooner the U.S. economy will rebound. For every \$1 billion that the U.S. exports, 20,000 American jobs are created. It is estimated that roughly 8 million U.S. jobs are export-dependent.

Fourth, American labor groups will not be as opposed to free trade negotiations with Chile and other Latin American countries as they are with Mexico. The AFL-CIO, for example, maintains that it would not be as concerned with FTAs with Chile and Costa Rica as it has been with Mexico. Chile and Costa Rica pose little threat to the U.S. auto industry and other labor intensive industries, which labor unions seek to protect with tariffs and other barriers to free trade.

Fifth, the political mood in Latin America now supports free trade with the U.S. An October 1991 Gallup Poll revealed, for example, that about 65 percent of the Mexican population supports free trade with the U.S. Similar support is found throughout the region. If Washington stalls, this mood may shift.

X Make the Index of Economic Freedom a precondition of foreign aid.

The Index of Economic Freedom is a device for measuring and evaluating a country's progress in developing a market economy. First proposed by The Heritage Foundation in 1988, the Index gauges such factors as the status of property rights, the extent of economic regulation, the size of the state sector in the economy, the rate of taxation, and trade policy.¹⁴ Nations that score high on the Index clearly are pursuing policies that will build free markets. A report accompanying the fiscal 1992 Foreign Aid Authorization Bill requires the U.S. Agency of International Development to use a common standard for evaluating and comparing countries' progress in adopting policies that promote individual economic freedom. This standard, which by and large is the Index, then becomes the criterion for deciding whether and how to grant those countries foreign aid. So far, however, Congress has not voted on the 1992 Foreign Aid Re-Authorization Bill. Bush should press Congress to approve the Index and instruct AID to use it to decide whether to grant aid to Latin American countries.

14 Charles L. Heatherly and Burton Yale Pines, eds., *Mandate for Leadership III: Policy Strategies for the 1990s* (Washington, D.C.: The Heritage Foundation, 1988), pp. 665-684.

X Isolate Cuba and Haiti.

While the Bush Administration should work to fortify democracy and encourage democratic reforms throughout Latin America, Washington specifically should seek to bring political freedom to the people of Cuba and Haiti.

Though the U.S. has tried to isolate Castro economically through a thirty-year-old trade embargo of Cuba, Castro has survived. The loss of help from Moscow and Eastern Europe, however, is bringing Castro's Cuba to its economic knees. To hasten Castro's downfall, the U.S. must refrain from compromising with Havana or liberals in the U.S. Congress on loosening the trade embargo, which prohibits all U.S. trade with Cuba. The U.S. also should continue banning the travel of American citizens to Cuba. Trade and tourism dollars could give the Castro dictatorship new life, just before it dies, thereby prolonging the suffering and misery of the Cuban people. Moreover, the U.S. should enlist the support of such Latin American leaders as Argentina's Menem and Mexico's Salinas to further isolate the dictator economically and diplomatically. Public denunciations by such leaders, combined with trade restrictions, would accelerate Castro's downfall. Washington also should encourage the Organization of American States (OAS) to send delegations to Cuba to inspect human rights conditions, meet with Cuba's fledgling democratic movement inside Cuba, pressure Castro to hold elections, and place a hemisphere-wide trade embargo on Cuba as it has done with Haiti.

The Bush Administration, for the most part, has responded wisely to the September 30 coup in Haiti. Washington cut off the \$85.5 million in U.S. economic and military aid that Haiti was receiving annually. Washington also froze Haiti's financial assets in the U.S., and worked closely with the Organization of American States to isolate the new Haitian military junta economically by placing a trade embargo on the country. The U.S. should continue pressing, together with Caribbean Basin nations, for a return to a civilian government in Haiti. Due to the failure of negotiations to restore democracy in Haiti, the Bush Administration also should explore OAS support for a possible multilateral military action in Haiti. Such a move could be needed to demilitarize the country and stop the flow of some 2,000 refugees leaving Haiti every day for Florida.

Resembling Castro. The Bush Administration, however, made a mistake in identifying U.S. policy so closely with ousted leader Jean Bertrand Aristide. To compound the error, the Administration is insisting that Aristide's return to power is a precondition for normalizing relations with Port-au-Prince. Yet, Aristide's actions in the months before his departure from power began to resemble those of Castro. Aristide fostered class violence, promoted lynchings, encouraged attacks against political opponents, and created a personal militia. As a result, the Haitian people may not want him back. They should be allowed to say so through some form of referendum, possibly organized by the OAS.

X Strengthen democratic reforms in El Salvador, Nicaragua, Panama, and other Central American countries.

The U.S. ouster of the drug-running Panamanian dictator Manuel Antonio Noriega from Panama in December 1989 and the electoral defeat of the communist Sandinistas in Nicaragua in February 1990 have alleviated U.S. security concerns in Central America. So, too, has the peace agreement signed this January 16 by the government of El Salvador and the communist guerrillas of the FMLN.

This does not mean, however, that the U.S. can ignore Central America. The area is still deeply impoverished and highly unstable. Washington has a stake in helping foster a stable and economically prosperous Central America. At risk in the region is a return to civil war and insurgency. Such turmoil could spill over into Mexico leading to political instability and economic problems. It also could escalate the number of refugees seeking assylum in the U.S.

Moreover, drug trafficking is becoming a serious problem in Central America. If democracy and free markets take root, however, then the region can become a key player in the Enterprise for the Americas Initiative. Washington must maintain its \$42.5 million in military sales and training for El Salvador's security forces at least until the FMLN guerrilla forces are more fully incorporated into society and have been disarmed. At that point, the U.S. should channel more of this aid toward market-based economic development programs and post-war reconstruction efforts. Washington, too, must continue pressuring the Salvadoran military to carry out badly needed reforms, including cuts in the size of the 58,000-man armed forces, civilian control over police and intelligence forces, and greater respect for human rights. Finally, Washington's \$200 million economic aid package to the Cristiani government in El Salvador should partially be directed toward providing private property rights to discontented peasants, former guerrillas, and military personnel released from duty.

The Bush Administration also must help push the democratic reforms in Nicaragua and Panama. The U.S. has a special interest in seeing that Violeta Chamorro's government in Nicaragua and Guillermo Endara's government in Panama succeed. To help, Washington should condition aid on, and assist with, the demilitarization of both of these countries. In Nicaragua, the U.S. must make it clear to the Sandinistas that the Chamorro government has Washington's full support and that attempts to undermine the fragile new democracy could trigger a U.S. response. In Panama, Washington should continue helping the civilian security forces to root out former Noriega supporters, as well as bolster anti-narcotics cooperation with the Endara government.

X Protect anti-drug, counterterrorism, and military training programs from congressional cuts.

With communism on the wane in Latin America, the security interests of the U.S. in this region will be focused on countering terrorist attacks on American citizens and interests, and fighting the war against drugs. The U.S. last year spent approximately \$373 million to combat illegal drugs and terrorism in Latin

America. The Bush Administration has requested some \$445 million for fiscal 1992. The majority of this aid goes to training and educating Latin America's anti-drug and military forces, giving them communication and intelligence gathering equipment, computers, jeeps, helicopters, patrol boats, radar technology, uniforms, and weapons; and covering the costs of U.S. anti-drug personnel deployed to the region.

Boost for Human Rights. The full \$445 million requested by Bush for security assistance to Latin America is needed to curtail terrorism, and illegal drug trafficking, and to further professionalize the region's armed forces. This amount, however, should be re-evaluated and possibly diminished as security threats in the region continue to diminish. Yet Congress is trying to cut Latin American security assistance too quickly. Many congressional liberals and self-proclaimed human rights groups cite alleged human rights violations in El Salvador, Peru, and other countries as justification for aid suspension or termination. The State Department, however, argues that the cutoff of such aid will only make matters worse. Greater contact with the U.S. armed forces and continued military grants, sales and training will help bolster respect for human rights among Latin American security forces, as well as help counter the drug trade and terrorism.

Besides pressing Congress for full funding of its Latin American security assistance program, the Bush Administration should ensure that the money approved by Congress is wisely spent. One of the best security assistance programs is the International Military Education and Training (IMET) program, which helps train and educate armed and security forces in Latin America, making them more professional and less likely to abuse human rights. Washington should also share its expertise in such activities as intelligence gathering, criminal investigation, hostage rescue, surveillance, demolition, search and destroy missions, and armed field operations against drug traffickers and terrorists.

Finally, the U.S. should provide the region's armed forces with helicopters, coastal and river patrol boats, spare parts for their U.S.-manufactured planes, communications equipment, night vision gear, small arms, machine guns, jeeps, field uniforms, packs, boots, and maps. This equipment does not need to be new and could be surplus equipment retired from the U.S. armed services. This would reduce the cost to the U.S. taxpayer.

X Explore and promote free market-based solutions to protecting the environment.

Latin America has abused its environment for decades by socialist style economic policies and military dictators who care little for the environment. Some 14 percent of the Amazon rain forest, for example, has been destroyed.

To combat pollution in Latin American, the Bush Administration should press Latin American countries to adopt free market solutions to environmental problems. Washington, for example, should encourage Latin American countries to guarantee private property rights; privatize state-owned industries, which pollute more than private industries; and invest money into research programs that explore market-based solutions to environmental protection. The U.S. and other

countries holding the huge foreign debts of Latin American countries also could cancel their interest payments on restructured debt, allowing the sums to be paid instead to a special privately managed fund for environmental programs. This debt reduction method, called "debt-for-nature swaps," has been used successfully in Chile and Mexico. The U.S. should challenge the OAS to get more involved in creating free market solutions to environment problems. The OAS, for example, could be asked to establish a free market environmental task force to explore ways to clean the environment without destroying jobs and slowing economic growth.

X Make the Organization of American States (OAS) more effective.

The OAS traditionally has been ineffective in helping resolve economic, political, and security concerns in the Americas. It often also has criticized U.S. policies and actions in the region, including the U.S. 1989 liberation of Panama. Yet it was the OAS's own inability to resolve the Panama crisis that eventually forced the U.S. to take action to protect the region's security interests.

A new role for the OAS may be evolving. Over the past two years, with the end of the Cold War and the mounting acceptance in the Americas for free market policies and democracy, the OAS's rhetoric and actions increasingly have supported U.S. interests and foreign policy positions. Most recently, the OAS has worked to bring stability to post-war Nicaragua, has sought to counter illegal arms flows in Central America, has taken a more active stance in developing counter-narcotics policies, and has defended democracy, especially in Haiti where it is acting as an intermediary between Aristide and the military to bring democracy back to the country.

The U.S. should welcome these developments and support OAS action diplomatically and financially when in its interests. By working more closely with the OAS, Washington can seek to use its clout in the region to promote democratic stability, the EAI, anti-drug efforts, and human rights. The U.S., however, always should retain the right to act unilaterally, as it did in Panama, and should never give any country or organization a veto over its actions. This would make America look weak and paralyze U.S. foreign policy.

CONCLUSION

The end of the Cold War and the near-global defeat of communism give the U.S. an unprecedented opportunity to enter into a partnership for economic growth and democracy with its southern neighbors. Not only has Latin America gone through a dramatic democratic and free market transformation, it stands poised to forge a hemisphere-wide free trade zone. If properly cultivated by the Bush Administration, free markets and democracy could blossom fully in the region. This, obviously, would benefit the U.S. economy and safeguard Washington's security interests in Latin America. The next century may indeed be the American century, not just for the U.S., but for all of the Americas.

The success or failure of Latin America's reforms are vitally important to U.S. economic and security interests. If they prove successful and lasting, the region could become an increasingly important market for U.S. goods and investment, and an important new source of raw materials. If the free market and democratic revolutions fail in Latin America, the region could be destabilized by guerrilla insurgencies, terrorism, increased levels of drug trafficking, military coups, and could be an even larger source of illegal immigration and refugees to the U.S.

Fostering Economic Prosperity. The Bush Administration can fortify free markets, democracy, and regional security in the Americas by quickly completing the North American Free Trade Agreement talks with Canada and Mexico. A North American free trade pact will lead the way for similar agreements with other countries in the hemisphere, and will demonstrate that Washington has genuine interests in improving its relations with its neighbors. Bush also must work with the region's leaders to promote and forge the Enterprise for the Americas Initiative (EAI). To this end he should ask that a summit of Latin American leaders convene sometime this year to discuss ways to promote the free trade vision implicit in the EAI. This will assure the U.S. new and dynamic markets throughout Latin America and the Caribbean and help spread economic prosperity and stability in the region.

Bush also should tackle the security problems that still plague the region. He should continue to help Latin American countries wage their wars against illegal drug traffickers and terrorists. The Bush Administration must maintain its security assistance budget for the region's trouble spots, including Colombia, El Salvador, and Peru, to guarantee that progress made to date is not reversed, or that problems that plague these countries do not spread to their neighbors. He also should continue the trade embargo on Cuba and Haiti, while distancing himself from former Haitian leader Jean Bertrand Aristide, who showed himself to be less than a true democrat while in office.

Finally, Bush should explore exciting new free market means to clean the environment in Latin America. One of these is the so-called debt-for-nature swaps, whereby the interest on foreign debt is forgiven and turned over to a fund to finance environmental projects.

These policies would inaugurate and shape a new era in U.S.-Latin American relations, as well as represent a sign of good faith toward the region. By contrast, indifference or inaction by Washington could result in a setback for free markets, democracy, and security in the hemisphere. The inter-American community today stands on the brink of a prosperous and stable decade. For Washington to miss this opportunity would be one of the policy failures of this century.

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