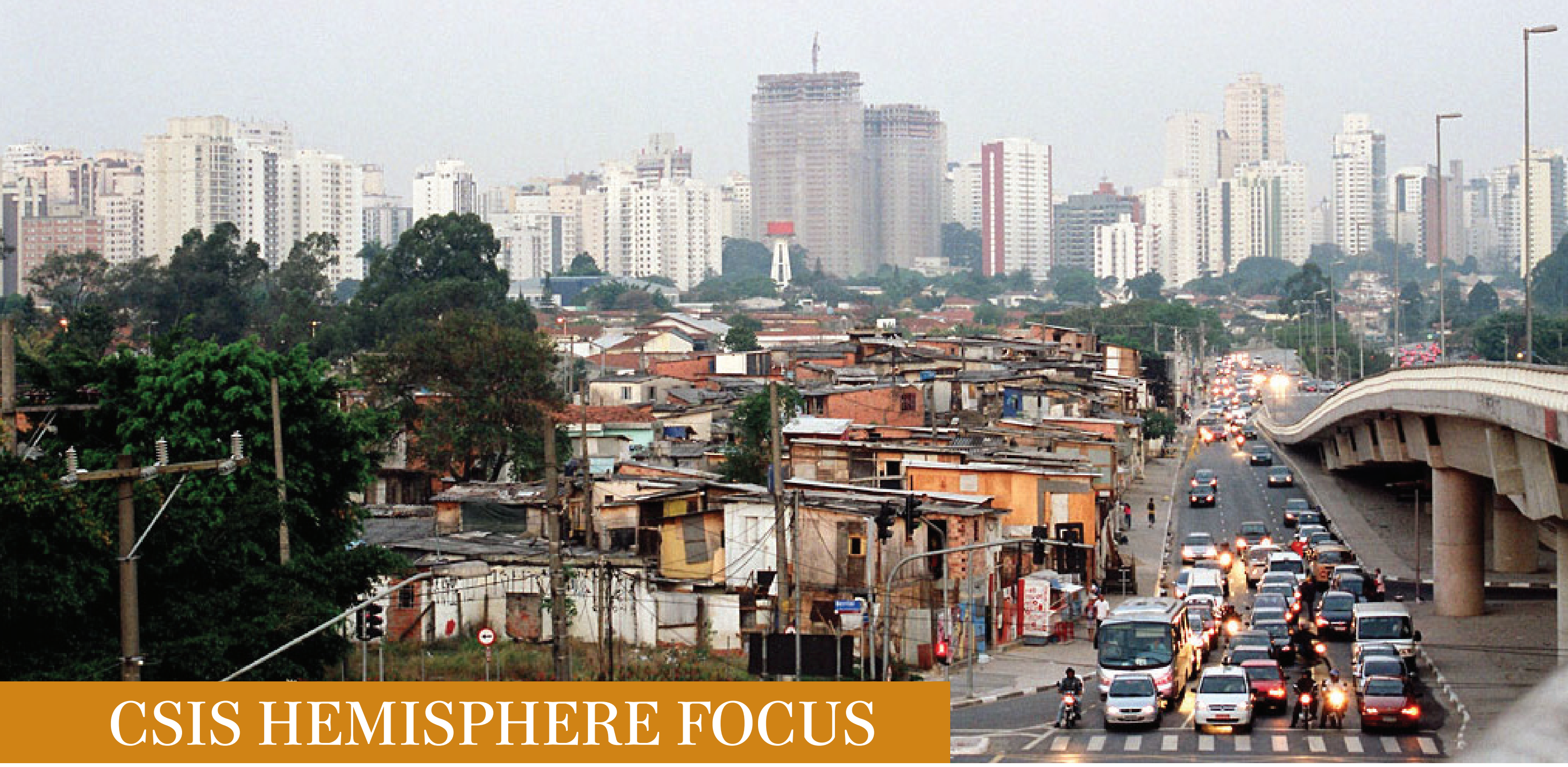

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Recommendations for a New Administration: Prosperity through Rule of Law and Sound Economics

By Arturo C. Porzecanski | December 11, 2012

Latin America and the Caribbean encompass a heterogeneous region. Gross domestic product per capita adjusted for purchasing power ranges from a rock-bottom $1,300 per annum in historically mismanaged Haiti to well over $20,000 in the stable and competently administered Caribbean islands of Bahamas and Barbados. The weighted average for the region is $12,300, about one-fourth the level in the United States and 30 percent of that in Canada.

Other vital statistics likewise confirm a very scattered picture in terms of economic achievement and potential. While nations like Bolivia, Ecuador, Haiti, and Venezuela rank toward the bottom of the World Bank's global index on *Ease of Doing Business*, they also score very poorly in the World Economic Forum's *Global Competitiveness Index*, in Transparency International's *Corruption Perceptions Index*, as well as in the Heritage Foundation's *Index of Economic Freedom*. At the same time, countries like The Bahamas, Barbados, Chile, and Peru rank relatively high in those same worldwide comparisons. In terms of ideological proclivities, commitment to participatory democracy, and respect for human rights, including property rights, the countries of Latin America and the Caribbean also span a very wide spectrum.

Consequently, U.S. foreign policy should take into account the enormous economic, political, and social diversity of Latin America and the Caribbean, and, rather than attempt to fashion a one-size-fits-all policy for the region, U.S. government priorities should be shaped by essential values and principles. Individual government leaders and countries throughout

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Latin America and the Caribbean should then be rewarded or penalized depending on the extent to which they demonstrate a commitment to values and principles that are shared with the United States. In short:

- Eschew meaningless summitry,
- Bolster cooperation with those that share goals, and
- Reward good governance and economic performance.

A first implication of this approach is that the United States should stop trying to bring every government in the hemisphere under one tent by involving itself in U.S.-Latin America presidential summit meetings. These gatherings have never served a useful purpose, and thus there is no good reason to persevere with them – particularly since so many Latin American countries want to invite authoritarian Cuba to the next summit. The prestige and authority of the presidency of the United States should be used sparingly and mainly to show strong support for our like-minded allies in the region. It should not be wasted away in awkward "photo opportunities" and the vain attempt to draft joint declarations of little significance, as witnessed in Cartagena this past April.

A second policy implication is that the notion of building a Free Trade Area of the Americas (FTAA), one that will extend "from Anchorage to Tierra del Fuego," should be formally buried. The FTAA negotiations, officially launched in Chile in September 1998, have gone nowhere in the past decade because of opposition from many Latin American governments that do not believe in free trade—certainly not under the aegis of the United States. Therefore, Washington should continue building a constructive majority in pursuing bilateral and multilateral trade, investor protection, and other agreements among those countries that share our goals and aspirations. In the area of trade partnerships, pursuing a Trans-Pacific Strategic Economic Partnership Agreement (commonly known as the TPP) is the right way to go, because that effort involves a growing number of countries in Asia and the Americas that genuinely want to reduce obstacles to trade and have thus come together to negotiate in good faith.

A third implication is that the United States should treat governments that nurture democratic values, pursue sensible economic policies, foster the rule of law, and protect property rights visibly better than those that do not. Far too often, the U.S. government has kept on extending foreign aid, providing preferential access to our domestic market, supporting concessional lending by multilateral organizations, and granting recognition to governments—including corrupt administrations—even though they do not share U.S. values and principles. This has usually been done in the name of protecting national security, because U.S. government agencies have wanted the cooperation of said governments in keeping terrorists and drug dealers at bay. Pandering to unsavory governments generally delivers paltry results, and at a cost in sending a confusing message to all about what behavior and which policies are acceptable to the United States.

In separating the proverbial wheat from the chaff, it is good to remember that democracy is not just about holding elections. After all, even Cuba holds grassroots elections. A true democracy requires an independent and efficient judiciary, a press that is free of intimidation, constitutional checks and balances that work under pressure, and robust and representative economic, social and political institutions. As the late Jeane Kirkpatrick, scholar and former U.S. representative to the United Nations, put it so well, "Democratic elections are not merely symbolic. …They are competitive, periodic, inclusive, definitive elections in which the chief decision-makers in a government are selected by citizens who enjoy broad freedom to criticize [the] government, to publish their criticism, and to present alternatives." By these standards, several Latin American and Caribbean countries are half-heartedly democratic—and the United States should treat them quite differently from those where the roots of democracy run deep.

The primary objective of economic policies is to create an environment that encourages the exit out of poverty, especially via enhanced educational opportunities and the removal of obstacles to entrepreneurship; the reduction of unemployment, particularly through labor-market flexibility; the achievement of low inflation and currency stability, chiefly through an independent and professional central bank; the deepening and sophistication of financial markets, through appropriate tax incentives and regulatory oversight; and the pursuit of sound fiscal policies through enlightened and transparent budget practices. By this standard as well, several Latin American and Caribbean countries have made insufficient progress—and U.S. government agencies should interact with the laggards differently from how they relate to those that have been pursuing appropriate structural reforms.

Fostering the rule of law and protecting property rights are also essential ingredients of the formula for economic prosperity and political stability. Moreover, in an increasingly globalized world, the welfare of U.S. citizens and businesses is often affected by the extent to which governments in Latin America and the Caribbean establish and enforce legislation that increases the predictability of economic interactions and provides protection against corruption, abuse, discrimination, price and capital controls, and expropriation without fair and prompt compensation. Therefore, U.S. foreign policy should be outspoken in the defense of the rule of law and the protection of property rights.

In the past decade, successive U.S. administrations have been too timid or slow to stand up for what is right and to denounce what is wrong in Latin America and the Caribbean. We have withdrawn from the public arena and left the bully pulpit to the likes of Hugo Chávez and Rafael Correa—mostly to lecture the United States and intimidate their neighbors. And yet, they are the leaders of increasingly authoritarian governments who have maintained only the trappings of democratic rule while persecuting the independent media, imposing wide-ranging controls on economic activity, undermining the rule of law, disrespecting property rights, and bullying foreign investors.

Take the case of Ecuador. The Office of the United States Trade Representative (USTR) has publicly acknowledged the many failings of the government of Ecuador in their periodic reports to Congress on the operation of the Andean Trade Preference Act (ATPA), including this past July—failings that arguably put the country out of compliance with the ATPA's eligibility requirements. And yet, the USTR has not recommended the cancellation of Ecuador's access to ATPA trade preferences, which augment the benefits already granted to Ecuador under the U.S. Generalized System of Preferences (GSP) program. This despite the fact that the government of Ecuador has already stated its intention to terminate the U.S.-Ecuador Bilateral Investment Treaty and has denounced outstanding, binding arbitration awards against it arising from the mistreatment of U.S. companies.

The case of Argentina is also compelling. During the past half-dozen years, the country has been performing steadily worse in terms of democratic governance, institution-building, sound economics, rule of law, and the protection of property rights. Argentina is the only member of the G20 that owes many billions of dollars to bondholders who have won court judgments (mainly in the United States) and arbitral awards (mainly through ICSID, the International Center for Settlement of Investment Disputes) against it and also to official export-credit agencies such as the Export-Import Bank of the United States and its equivalents in Europe and elsewhere. It is also the only country in the G20 that refuses to abide by its treaty obligations to the International Monetary Fund (IMF), under Articles IV and VIII. And it is likewise the only G20 member country that reportedly has been nationalizing properties without paying fair compensation.

In the cases of both countries, good governance and sound economic policies seem to be in decline. If the United States should be strengthening cooperation with those in the hemisphere that share its goals and values, logic would argue for withdrawing support from those that do not. U.S. trade preferences should not be renewed for any country that demonstrates it does not want them. Nor should the United States support G20 and IMF membership for any government not willing to abide by their rules. In the meantime, cooperation and engagement should go to those that want it.

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