RETHINKING U.S.–LATIN AMERICAN RELATIONS

A HEMISPHERIC PARTNERSHIP FOR A TURBULENT WORLD

Report of the Partnership for the Americas Commission

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This Commission is fully independent. Members served in their personal capacity and not under instructions from any government or organization. The report reflects strictly personal views of the members of the Commission and is in no way an expression of their views in their official capacity nor the views of any government or organization with which they are affiliated. The members of the Commission endorse the report as a whole but do not each subscribe to every statement and recommendation in the text.

FOREWORD

The Partnership for the Americas Commission seeks to contribute to the discussion of how the United States can best engage the countries of Latin America and the Caribbean (LAC) to tackle key regional and global challenges. The Commission was first convened by the Brookings Institution in May 2008 and concluded its deliberations as the world was reeling under financial crisis in the autumn of 2008. It met in Washington three times and was staffed by the Brookings Institution's Latin America Initiative.

Three features distinguish the Commission from many of its predecessors. First, this group of 20 men and women is evenly balanced between U.S. citizens and citizens of the LAC countries, including Barbados, Bolivia, Brazil, Chile, Guatemala, Mexico, Peru, and Venezuela.

Second, this group is composed of senior decision makers with a wealth of experience in business, government, and civil society. It includes three former presidents, one former prime minister, one former vice president, two former foreign ministers, four senior business executives, five heads of research institutions, two senior diplomats, and two heads of media organizations.

Third, this Commission has sought to produce recommendations to help build a genuine partnership between the United States and its hemispheric neighbors. Rather than lecturing the United States on how it should act as a superpower or telling the LAC governments how to manage their own economies and political systems, the Commission has identified specific areas in which U.S.–Latin American engagement is essential for generating hemisphere-wide benefits and mitigating regional and global risks. The Commission's members believe that this pragmatic approach is more likely to yield results because it recognizes that the context of U.S.-LAC relations has changed and that issues previously seen by many countries as purely domestic have become so deeply transnational that they can no longer be addressed effectively by any single government.

We believe that the future is bright for a closer, more effective partnership for the Americas, one that will improve the ways our citizens work and live. We hope that this report helps to advance this vision.

Ernesto Zedillo
Co-chair
Former President of Mexico

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Mauricio Cárdenas and Leonardo Martinez-Diaz, as well as the entire team from the Latin America Initiative at Brookings, were instrumental in shaping this report and contributing with their own ideas and proposals. Lael Brainard and Carlos Pascual played key roles in designing and breathing life into this project and providing the necessary leadership within Brookings to make it successful. Steve Bennett, Carol Graham, and Theodore Piccone were constant sources of ideas and support, while Julia Guerreiro from Brookings and Sean R. Singer from the Woodrow Wilson International Center for Scholars provided valuable research assistance.

The Commission's deliberations and the report itself benefited greatly from the analyses contributed by a wide range of experts and scholars, including Nancy Birdsall, Michael Bustamante, Kevin Casas-Zamora, Soumya Chattopadhyay, Wayne A. Cornelius, John Deutch, Francisco E. González, Rosario Espinal, Vanda Felbab-Brown, Carol Graham, Gordon Hanson, Jonathan Hartlyn, Vicki Huddleston, José Miguel Insulza, Marta Lagos, Abraham F. Lowenthal, George Mandelbaum, Jennifer McCoy, Jaime J. Montealegre, Moisés Naím, Daniel P. Erikson, Demetrios Papademetriou, Rodrigo Pardo, Marifeli Pérez-Stable, Neil Ruiz, Monica Serrano, Michael Shifter, Sean R. Singer, Barbara Stallings, Juan Gabriel Valdes, Sidney Weintraub, Laurence Whitehead, and Daniel Zovatto.

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Strobe Talbott
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OVERVIEW AND RECOMMENDATIONS

Developments in Latin America and the Caribbean (LAC) have a very significant impact on the daily lives of those who live in the United States. Yet because of a lack of trust, an inability to undertake stable commitments by some countries, and different U.S. priorities, the United States and Latin America have rarely developed a genuine and sustained partnership to address regional—let alone global—challenges.

If a hemispheric partnership remains elusive, the costs to the United States and its neighbors will be high, in terms of both growing risks and missed opportunities. Without a partnership, the risk that criminal networks pose to the region's people and institutions will continue to grow. Peaceful nuclear technology may be adopted more widely, but without proper regional safeguards, the risks of nuclear proliferation will increase. Adaptation to climate change will take place through isolated, improvised measures by individual countries, rather than through more effective efforts based on mutual learning and coordination. Illegal immigration to the United States will continue unabated and unregulated, adding to an ever-larger underclass that lives and works at the margins of the law. Finally, the countries around the hemisphere, including the United States, will lose valuable opportunities to tap new markets, make new investments, and access valuable resources.

Today, several changes in the region have made a hemispheric partnership both possible and necessary. The key challenges faced by the United States and the hemisphere's other countries—such as securing sustainable energy supplies, combating and adapting to climate change, and combating organized crime and drug trafficking—have become so complex and deeply transnational that they cannot be managed or overcome by any single country. At the same time, the LAC countries are diversifying their international economic and political relations, making them less reliant on the United States. Finally, the LAC countries are better positioned than before to act as reliable partners.

This report does not advance a single, grand scheme for reinventing hemispheric relations. Instead, the report is based on two simple propositions: The countries of the hemisphere share common interests; and the United States should engage its hemispheric neighbors on issues where shared interests, objectives, and solutions are easiest to identify and can serve as the basis for an effective partnership. In this spirit, the report offers a series of modest, pragmatic recommendations that, if implemented, could help the countries of the region manage key transnational challenges and realize the region's potential.

The report identifies four areas that hold most promise for a hemispheric partnership: (1) developing sustainable energy sources and combating climate change, (2) managing migration effectively, (3) expanding opportunities for all through economic integration, and (4) protecting the hemisphere from drug trafficking and organized crime. The next section of this report explores the growing need for a U.S.-LAC partnership. The subsequent four sections offer an analysis of each promising area for the potential partnership and provide concrete recommendations for U.S. policymakers—which are previewed below. The last section addresses U.S. relations with Cuba. Though this issue is of a smaller order of magnitude than the other four areas, it is addressed here because Cuba has long been a subject of intense interest in U.S. foreign policy and a stumbling block for U.S. relations with other countries in the hemisphere.

The report puts forward these recommendations for the next U.S. administration and Congress:

Develop sustainable energy resources and combat climate change:

- Establish a regional subgroup for cooperation on climate change to coordinate positions in the context of the global climate change negotiations.
- Establish an informal group to discuss and coordinate hemispheric efforts to adapt to climate change. The group would focus on identifying the challenges posed by climate change and on outlining how hemispheric cooperation and investments can be mobilized.
- Reduce and gradually eliminate the 54¢-per-gallon tariff on ethanol imports, as well as subsidies on corn-based ethanol.
- In partnership with other governments in the hemisphere, establish a Renewable Energy Laboratory of the Americas to promote hemispheric cooperation on developing solar, wind, and cellulosic-biomass technologies.
- Intensify hemispheric cooperation on the peaceful use of nuclear energy.
- Help finance the integration of electric grids across the LAC region, especially in South and Central America.
- Promote regulatory regimes that are open to private energy investment and trade in energy technology and services.

Manage migration effectively:

- Establish groups at the working and ministerial levels to discuss migration issues regularly with key migrant-sending countries, including Mexico and El Salvador.
- Establish a three-part visa system made up of temporary, provisional, and permanent visas to encourage circular migration patterns.
- Establish a Standing Commission on Immigration and Labor Markets to recommend annual visa quotas on the basis of U.S. labor market needs.
- Provide U.S. law enforcement agencies and employers with the necessary tools to enforce workplace verification laws.
- Expand investments in technology that enhance border efficiency and security, along both the United States–Mexico and United States–Canada borders.
- Provide a path to legal status in the United States for illegal immigrants without a criminal record.
- Enhance joint efforts to protect the human rights of migrants.
- Facilitate the inexpensive transfer of remittances.

Make hemispheric economic integration work for all:

- To protect its credibility, the U.S. congress should approve the Colombia and Panama free trade agreements as soon as possible. It should then deemphasize the bilateral approach to trade negotiations.
- Redouble efforts to pursue a successful conclusion to the Doha Round of multilateral trade negotiations. The United States should strive for a deal that includes meaningful agricultural reform.
- If the Doha Round negotiations continue to drag on, the United States should consider a "third way" between global trade negotiations and bilateral agreements by deepening hemispheric economic cooperation multilaterally, through incremental arrangements.
- Address the legitimate concerns of U.S. workers through more effective investments in social safety nets and education.
- Expand the number of double-taxation and investment protection treaties in the hemisphere to facilitate investment.
- Emphasize trade facilitation and trade adjustment issues in U.S. foreign assistance to the LAC countries.

Protect the hemisphere from drugs and organized crime:

- Undertake a comprehensive, comparative evaluation of counternarcotics measures.
- Launch a hemispheric dialogue on illegal drugs.
- Launch pilot projects based on the most promising harm-reduction approaches.
- Increase substantially the amount of federal and state funds available to drug courts and related treatment programs.
- Complement drug-prevention programs in schools with drug education outside the classroom.
- Customize the messages of drug-prevention campaigns to specific target groups.
- Combine eradication efforts with policies to promote alternative livelihoods and more effective interdiction.
- Ratify the UN Protocol Against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition.

U.S.–Cuban relations:

- Lift all restrictions on travel to Cuba by Americans.
- Repeal all aspects of the "communications embargo" (radio, TV, Internet) and readjust regulations governing trade in low-technology communications equipment.
- Remove caps and targeting restrictions on remittances.
- Take Cuba off the State Department's State Sponsors of Terrorism List.
- Promote knowledge exchange and reconciliation by permitting federal funding of cultural, academic, and sports exchanges.
- Provide assistance to the Cuban people in recovering from natural and human-made disasters.
- Encourage enhanced official contact and cooperation between U.S. and Cuban diplomats and governments.
- End opposition to the reengagement of the international community with Cuba in regional and global economic and political organizations.
- Work with the members of the European Union and other countries to create a multilateral fund for civil society that will train potential entrepreneurs in management and innovation.

The mechanics of partnership:

- Consider the use of informal networks to facilitate hemispheric partnership and cooperation. To help implement all the recommendations above, and to build an institutional structure that can support sustained hemispheric partnership, consider establishing a series of informal, issue-specific, and flexible networks. The networks would help institutionalize dialogue among the countries of the hemisphere, facilitate policy coordination, and promote mutual learning without locking countries into formal negotiations.
- Consider the creation of a hemispheric steering group, an "Americas Eight" (A8). It would be an umbrella grouping of countries from the hemisphere that would serve as a steering committee for the proposed partnership. Modeled on the Group of Eight, the A8 would set the agendas of issue-specific networks and encourage consensus building and political agreement at the highest levels of government.

THE GROWING NEED FOR PARTNERSHIP IN THE WESTERN HEMISPHERE

In comparison with the nations of Europe, Asia, and the Middle East, the countries of Latin America and the Caribbean (LAC) rarely grab newspaper headlines in the United States. Yet the LAC region has a very significant impact on the daily lives of those who live in the United States. More than 30 percent of U.S. oil imports come from Latin America—more than from any other region, including the Middle East. Over half of the U.S. foreign-born population is from the LAC region. These immigrants and their offspring make up a large and growing part of the U.S. labor force, and they are fast becoming an integral part of American society, politics, and culture. When economic or natural disasters strike the LAC region, the United States is often the first port of call for emigrants and refugees. The LAC countries buy a fifth of all the United States' exports and supply a fifth of its imports. Finally, the United States and most of the LAC countries share fundamental values and ideals—including a belief in democracy, a market economy, secular government, and civil and human rights.

The advent of a new administration in Washington opens the door to a fresh look at this increasingly interdependent relationship. This report is also particularly timely in the context of the current financial crisis, which is having profound regional as well as global implications. The events of recent months have demonstrated that the Western Hemisphere's countries remain interdependent; developments in U.S. financial markets are rapidly reflected in the LAC region. Stock prices across the region have declined, currencies have weakened, and the cost of funds for governments and corporations has increased. The real economy has suffered as well, and growth forecasts for the region have been revised downward, especially for those countries that rely more heavily on trade and remittance flows from the United States, such as Mexico and the Central American and Caribbean nations. In response, the United States has approved $30 billion in currency swaps for each Mexico and Brazil to help them stabilize their currencies and meet immediate debt obligations, and the International Monetary Fund has nearly doubled its limit on loans to developing countries.

Most observers believe that the countries of the LAC region are better prepared to weather the current global financial crisis than past episodes of financial turmoil. The region's current account deficit is small, inflation is under control in most economies, and fiscal conditions have generally improved. The region has also benefited from high commodity prices and large capital inflows. Several countries have amassed sizable international reserves. But the region is not immune from the crisis. Its countries could suffer from a sharp decline in commodity prices, as well as from a reduction in capital flows from advanced economies. Also, leading international banks—which have a strong presence in the region and are key players in financial intermediation—could act as transmission lines for external shocks.

As the crisis unfolds, Latin America remains important to the United States in at least two respects. If the LAC region grows at rates of more than 3 percent a year—as the International Monetary Fund currently projects—even in a weak global economy, its countries will play a valuable role as buyers of U.S. goods and services, helping the U.S. economy export its way out of the crisis. Conversely, if the region's economy deteriorates further, the problems associated with poverty, crime, inequality, and migration may worsen and could potentially spill across borders. For the United States, coping with the hemispheric impact of the financial crisis will be a major policy challenge with economic as well as political and security implications.

The Need for a Hemispheric Partnership

Historically, the United States and Latin America have rarely developed a genuine and sustained partnership to address regional—let alone global—challenges. Mutual distrust is partly to blame. Also, the LAC countries were often not ready to make stable commitments. The United States had other preoccupations and did not make hemispheric partnership a priority. Problems and solutions were seen from Washington as country-specific and were managed mostly on a country-by-country basis through bilateral channels. Meanwhile, multilateral forums—such as the Organization of American States and the summits of hemispheric leaders—ran out of steam, became mired in confrontation, or remained underresourced.

If a hemispheric partnership remains elusive, the costs to the United States and its neighbors will be high, in terms of both growing risks and missed opportunities. Without a partnership, the risk that criminal networks pose to the region's people and institutions will continue to grow. Peaceful nuclear technology may be adopted more widely, but without proper safeguards, the risks of nuclear proliferation will increase. Adaptation to climate change will take place through isolated, improvised measures by individual countries, rather than through more effective efforts based on mutual learning and coordination. Illegal immigration to the United States will continue unabated and unregulated, adding to an ever-larger underclass that lives and works at the margins of the law. Finally, the countries around the hemisphere, including the United States, will lose valuable opportunities to tap new markets, make new investments, and access valuable resources.

It is important to note at the outset that the term "partnership" as used in this report does not mean equal responsibility for all. The asymmetries between the United States and its neighbors are large and will remain so for the foreseeable future. Partnership here means a type of international cooperation whereby a group of countries identifies common interests, objectives, and solutions, and then each partner country undertakes responsibilities according to its own economic and political capacities to generate shared benefits.

Today, four changes in the region have made a hemispheric partnership both possible and necessary. First, the key challenges faced by the United States and the hemisphere's other countries—such as securing sustainable energy supplies, combating and adapting to climate change, and combating organized crime and drug trafficking—have become so complex and deeply transnational that they cannot be managed or overcome by any single country. Washington needs partners in the LAC region with a shared sense of responsibility and a common stake in the future.

For example, drug trafficking and its associated criminal networks have now spread so widely across the hemisphere that they can no longer be regarded as a "U.S. problem," a "Colombian problem," or a "Mexican problem." The threat posed by these networks can only be countered through coordinated efforts across producing, consuming, and transshipment countries, all of which have a shared interest in controlling the flow of arms, money, vehicles, and drugs. The process of combating and adapting to climate change also exemplifies the need for a hemispheric partnership. All carbon-emitting societies contribute to the problem to different degrees, and all will experience its consequences. The solutions—ranging from developing alternative fuels to adapting to ecological shocks—all require sustained cooperation among the hemisphere's countries.

The second change is that the LAC countries are diversifying their international economic relations. Their range of trading and investment partners is expanding, with China in particular playing a prominent role in the region. Chinese imports from the LAC countries increased twentyfold between 1990 and 2005, while Chinese exports to the region grew even faster, from $620 million in 1990 to $37 billion in 2005. Latin America is also attracting significant foreign investment from nontraditional sources. Between just 2003 and 2005, the stock of Chinese foreign direct investment in the LAC region increased by 40 percent. China has become a key buyer of commodities, driving up prices and reversing the long-term decline in the region's terms of trade. Meanwhile, the Caribbean countries have recently signed an Economic Partnership Agreement with the European

Union, immediately opening all European markets and gradually opening Caribbean ones. With more valuable exports and less expensive manufactured imports, living standards in the LAC region have improved significantly.

At the same time, many LAC countries have moved beyond their traditional reliance on resources from the International Monetary Fund, the World Bank, and the Inter-American Development Bank. Chile, Mexico, Peru, and Brazil now enjoy investment-grade status from credit-rating agencies and in recent years have been able to raise capital readily in international markets. The same is true of several other countries, including Colombia, El Salvador, Panama, and Uruguay, which until the recent financial crisis enjoyed ready access to private international capital. Regionally owned institutions, such as the Andean Development Corporation and the Central American Bank for Economic Integration, have also reduced the region's dependence on traditional sources of capital.

Some Latin American countries are investing abroad on an unprecedented scale. In 2006, for example, Brazil invested more abroad ($28 billion) than it received in foreign direct investment ($19 billion). In Chile, private pension funds and the government have become active international investors. Surpluses have allowed Venezuela to inject billions of dollars into other countries, particularly through subsidized oil exports. Many Latin American multinationals—such as Brazil's Vale, Gerdau, and Odebrecht; and Mexico's CEMEX, America Movil, and Grupo FEMSA—have become global corporate giants. The current crisis may no doubt affect the relative magnitude of these investments, but economic relationships in the hemisphere will continue to diversify as the world economy recovers.

The third change is that the LAC countries are diversifying their political and diplomatic relations. The most notable example is Brazil, which has opened thirty-two new embassies in the past five years. Together with Venezuela, Brazil is playing a more active political role in the region through the Union of South American Nations, which is already active at the presidential level and is expected to become a key forum for the discussion of defense issues. Mexico and Brazil are also playing prominent roles in international forums and organizations, including the finance ministers' Group of Twenty and the trade ministers' Group of Twenty. Brazil has announced its intention to join the Organization of the Petroleum-Exporting Countries and the Paris Club. Chile and Brazil are expected to become members of the Organization for Economic Cooperation and Development (OECD) in the not-too-distant future. Mexico, Peru, and Chile are active members of the Asia-Pacific Economic Cooperation forum. In sum, this diversification of political and economic relations reflects many LAC countries' new confidence in their capacity to chart their own course in the world.

Their enhanced confidence and autonomy will make many LAC countries much less responsive to U.S. policies that are perceived as patronizing, intrusive, or prescriptive, and they will be more responsive to policies that engage them as partners on issues of mutual concern. Also, the LAC countries' diversification of economic and political relations means that Washington will have to compete with governments both outside and within the region for regional influence. In particular, Brasília and Caracas are both vying for leadership in South America; and though they may have different visions for regional integration and different ways to approach other governments, they agree that Washington should play a more limited role in their part of the world.

The fourth change is that, today, the LAC countries are better positioned to act as reliable partners. Despite remaining governance challenges, the vast majority of these countries are stable democracies for which competitive elections and peaceful transitions of power are the norm, not the exception. Throughout these countries, civil society groups now participate extensively in the policymaking process, and there is much less tolerance of violence as a means of political expression.

Economic progress has also made the LAC countries more reliable partners. Leaders, including some on the left, are committed to fiscal responsibility. Most central banks are now independent bodies focused on inflation control. Exchange rates largely reflect market forces. As a result, many LAC countries can now look beyond their borders and commit to sustained partnerships and responsibilities on regional and global issues.

In sum, the countries of the LAC region have made significant strides in economic and social development and will continue to prosper even if U.S. leaders remain disengaged. Washington must decide whether it wants to actively reengage and benefit from the region's dynamism and resources or be sidelined as other economic and political actors fill the void left by its absence.

A Window of Opportunity

A valuable window of opportunity soon will open for the U.S. government to rethink its relations with and policies toward the LAC countries. In 2009, a new U.S. administration and Congress will take charge in Washington, opening the door to fresh thinking and new policies. And in many LAC countries, the bicentennial celebrations in 2009 and 2010—marking the beginning of their revolutions that led to independence from Spain—will be a highly symbolic moment, one that will stimulate introspection and debate about their role in the world. In Brazil, 2008 marks two centuries since the Portuguese monarchy transferred its seat to Brazil, and this historic date has stimulated reflection regarding the special nature of its independence in the Latin American context.

This report does not advance a single, grand scheme for reinventing hemispheric relations. Instead, the report's analyses are based on two simple propositions: The hemisphere's countries share common interests; and the United States should engage its hemispheric neighbors on issues where shared interests, objectives, and solutions are easiest to identify and can serve as the basis for a sustainable partnership. In this spirit, the report offers a series of modest, pragmatic recommendations that, if implemented, could help the hemisphere's countries manage key transnational challenges and realize the region's potential.

The concept of a hemispheric partnership holds most promise in four areas: (1) developing sustainable energy sources and mitigating climate change, (2) managing migration effectively, (3) expanding opportunities for all through economic integration, and (4) protecting the hemisphere from drug trafficking and organized crime. The next four sections of this report offer an analysis of each area and provide concrete recommendations for U.S. policymakers.

The last section of the report addresses U.S. relations with Cuba. This issue is of a smaller order of magnitude than the issues of energy, migration, trade, and organized crime. But because Cuba has long been a subject of intense interest in U.S. foreign policy and a stumbling block for U.S. relations with the hemisphere's other countries, the members of the Commission felt it necessary to address the issue here.

The Mechanics of Partnership

A common theme running through this report is the institutional infrastructure that will be necessary to sustain hemispheric cooperation. Rather than calling for new international organizations with lumbering bureaucracies, the report recommends that the hemisphere's countries partner through lean, nimble networks based on the principle of "variable geometry"—the idea that not every country needs to take part in every policy initiative and discussion, but that some countries should cooperate more closely on certain issues. For example, the report calls for groups of varied sizes to coordinate policies and exchange information on adapting to climate change, carbon-emissions controls, migration issues, counternarcotics initiatives, and regional economic integration.

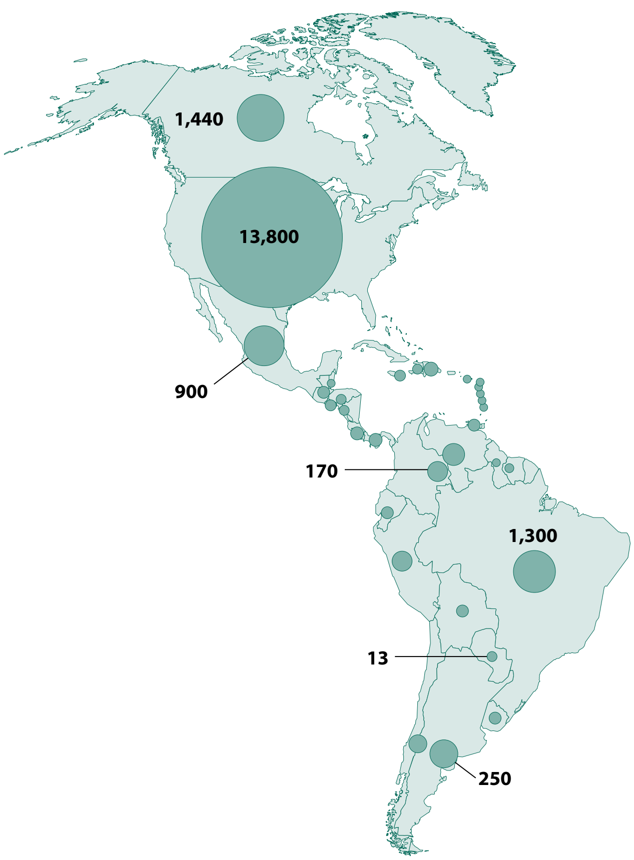
At the top of this system might be an "Americas Eight" (A8), an umbrella grouping of eight heads of state from the hemisphere that would serve as a steering committee for the proposed partnership. Modeled on the Group of Eight, the A8 would set the agendas of issue-specific networks and encourage consensus building and political agreement at the highest levels of government. Though the question of the A8's membership will clearly be controversial, at its core should be those countries with the largest populations and economies in the Americas, including Brazil, Mexico, and the United States, (see figure 1). The concept of an A8 is not developed further in this report, but it is offered here as a promising vehicle for a hemispheric partnership.

Amid all this discussion of partnership, the question of Venezuela stands out, because engagement with Caracas has proven especially challenging for Washington in recent years. The United States has strong incentives to engage that South American country, which is a major oil exporter to the United States. Also, Venezuela aspires to play a regional role, and it could thus become an important player promoting peace and security in the Southern Cone.

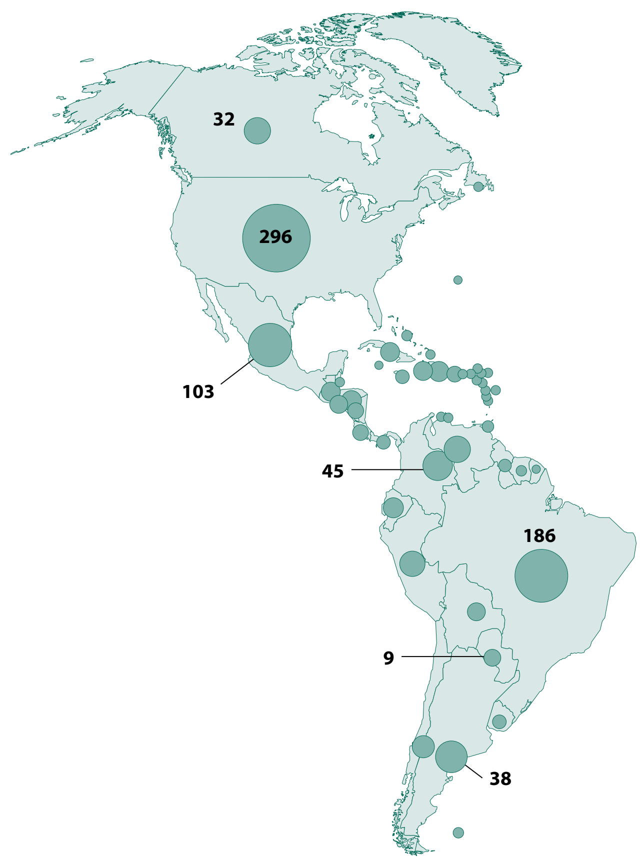
Ultimately, the United States will be best served by a calibrated, nonconfrontational approach in its relations with Venezuela. Restoring fluid diplomatic relations should be a goal for both Washington and Caracas, but these relations must be based on two principles: mutual respect and nonintervention in each other's internal affairs and those of neighboring countries.

Figure 1.
The Western Hemisphere: Total Income and Population
(gross domestic product in current billions of U.S. dollars, 2007; population in millions of people, 2005)

Income



Population



Source: Income: International Monetary Fund 2008b; Population: World Bank 2007.

DEVELOPING SUSTAINABLE ENERGY RESOURCES AND COMBATING CLIMATE CHANGE

In the coming decades, the United States and the rest of the Western Hemisphere will have to grapple with two major, interrelated challenges: securing stable and sustainable energy supplies and mitigating climate change. Concerns about the security of energy supplies are based on several trends: rapidly rising global demand for hydrocarbons relative to supply, maturing oil and gas fields in the OECD countries and Mexico (which is the United States' third-largest oil supplier), constraints on production and refining capacity, political instability in key oil-producing states, and rising resource nationalism. These appear to be sustained long-term trends, and they will resurface after the current crisis subsides. The U.S. economy is particularly vulnerable to disruptions in oil supply and price spikes—the United States has less than 3 percent of the world's proven oil reserves but consumes nearly a quarter of its oil production. The LAC countries provide over 30 percent of U.S. oil imports—substantially more than from any other region. The United States therefore has strong incentives to work with other countries in the hemisphere to preserve the reliable supply of hydrocarbons from the region.

The link between carbon-intensive activities and changes in the world's climate is now well established, and the consequences will be felt across the hemisphere. According to figure 2, if current human activity remains unchanged, the hemisphere will likely suffer from a variety of ecological shocks, including declines in agricultural yields, water shortages, the loss of animal and plant species, and more frequent and destructive storms in the Caribbean Basin. These extreme weather events could bring devastation to Central America, the Caribbean, and the southeastern United States, imposing a heavy human and material toll. As we know from recent storms, the costs of replacing homes, businesses, and infrastructure—along with the higher costs of energy if refineries and offshore rigs are damaged—will be vast.

Hemispheric Solutions

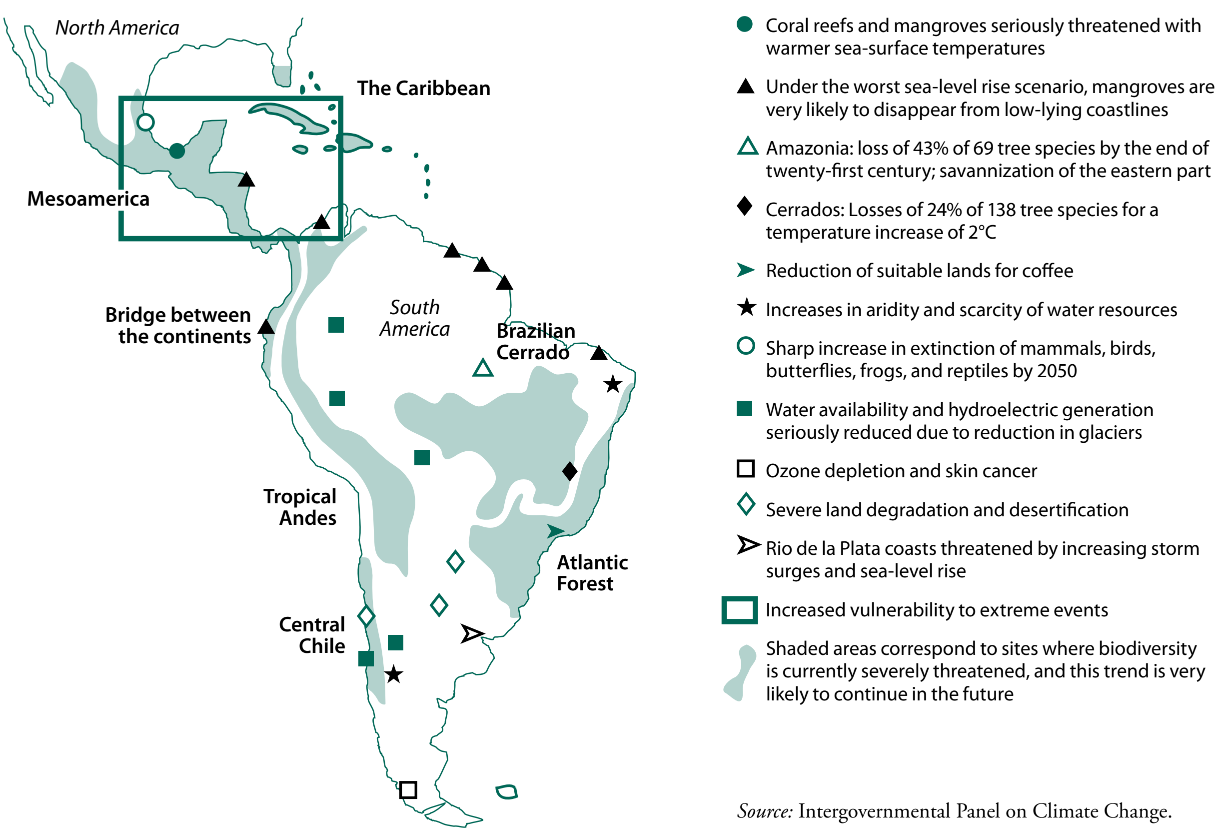
Addressing the challenge of energy security will require making energy consumption more efficient and developing new energy sources, whereas addressing the challenge of climate change will require finding ways to control carbon emissions, helping the world shift away from carbon-intensive energy generation, and adapting to some aspects of changing ecosystems. Potential solutions to these problems exist in the Americas, but mobilizing them will require a sustained hemispheric partnership.

Latin America has enormous potential to help meet the world's growing thirst for energy, both in terms of hydrocarbons and alternative fuels. Latin America has about 10 percent of the world's proven oil reserves. Venezuela accounts for most of these, though Brazil's oil reserves could increase from 12 to 70 billon barrels if recent discoveries can be developed. Bolivia is an important producer of natural gas, Mexico has great potential in solar energy generation, and several countries in the region could potentially produce much more hydroelectric power. Brazil is a world leader in sugarcane-based ethanol production, and the United States is a leader in corn-based ethanol (figure 3). Solar and wind power, particularly in Central America and the Caribbean, remain underdeveloped.

To expand the hemisphere's energy capacity, massive infrastructure investments will be required. Major investments in oil production (especially deep offshore), refining, and distribution will be needed to achieve the region's potential. Developing the Tupi project in Brazil alone will cost $70–240 billion. Liquefied natural gas will become an important source of energy, but not before major investments are made in infrastructure to support liquefaction, regasification, transport, and security. U.S. and Canadian electricity networks, which are already highly integrated, can be further integrated with Mexico's. Mexico also plans to connect its grid to those of Guatemala and Belize, eventually creating an integrated power market in Central America. Power integration in South America will demand even larger investments in generation, transmission, and distribution. Finally, reliance on nuclear power may grow because it is carbon free and does not require fossil fuel imports.

However, efforts to expand energy capacity and integrate hemispheric energy markets face a variety of obstacles. Energy nationalism has led to disruptive disputes over pricing and ownership. Tensions and mistrust in South America have hindered regional cooperation and investment, particularly on natural gas. The security of the energy infrastructure, especially pipelines, remains a concern in Mexico and parts of South America. Gas, oil, and electricity subsidies distort patterns of production and consumption, and they are triggering protectionist behavior elsewhere. Technology on renewables remains underdeveloped, and research in this area can be better centralized and disseminated. Overcoming these obstacles will require high levels of cooperation among hemispheric partners.

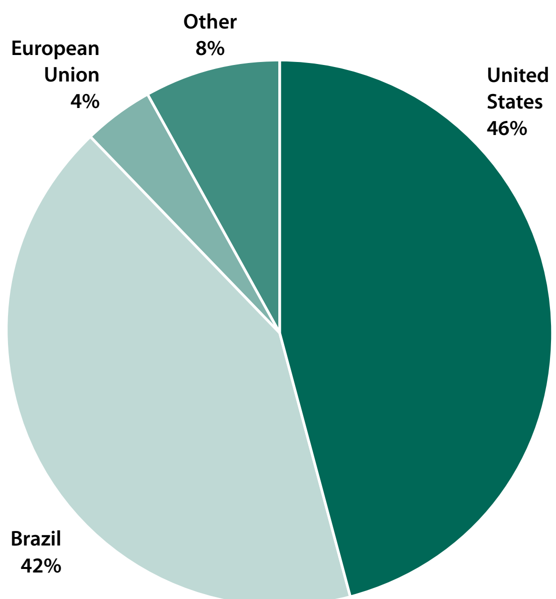
Figure 2.
Key Environmental Hot Spots in Latin America and the Caribbean and the Southeastern United States



Source: Intergovernmental Panel on Climate Change.

In addition to developing carbon-neutral sources of energy, the Western Hemisphere has other roles to play in combating climate change. The LAC region currently accounts for about 5 percent of annual global carbon emissions, and emissions per capita are still relatively low compared with other regions. However, minimizing the LAC region's future carbon footprint will require new policies. Also, deforestation globally accounts for 20 percent of greenhouse gas emissions. The Amazon River Basin contains one of the world's three most important rainforests, whose protection can therefore very significantly contribute to combating climate change. Brazil is pioneering the use of information technology to lessen deforestation in the Amazon.

Figure 3.
The Global Production of Ethanol for Fuel, 2006
(total production = 40 billion liters)



Source: World Bank 2008.

Recommendations

Establish a regional subgroup for cooperation on climate change to provide a hemispheric vehicle to coordinate positions in the context of the global climate change negotiations.

In cooperation with Brazil and Mexico, the United States should establish a regional subgroup on climate change and seek its recognition as a Subsidiary Body for Scientific and Technical Advice under the United Nations Framework Convention on Climate Change. This subgroup would provide a hemispheric vehicle for coordinating positions in the context of the global climate change negotiations.

In joining the regional subgroup, members would commit to price carbon explicitly, through a carbon tax or a cap-and-trade scheme, in accordance with universally agreed-on targets for combating climate change. They would also commit to price carbon implicitly, through greater efficiency in energy use and through alternative fuel standards. Members would support a global investment regime to help develop and share new technology on alternative energies, reduce deforestation, and bring low-carbon-emitting power to poor states. The subgroup would be sensitive to the principle that states have common but differentiated responsibilities, as stated in the Rio Declaration.

Establish an informal group to discuss and coordinate hemispheric efforts to adapt to climate change.

Even if global efforts to limit the future growth of carbon emissions are successful, the Earth's climate will continue to change as a result of the stock of greenhouse gases already in the atmosphere. This informal group, which would include government officials along with scientists and other technical experts, would focus on identifying the specific challenges that climate change will pose to the hemisphere's countries, regions, and subregions. It would also outline how hemispheric cooperation and investments can be mobilized to help meet these adaptation challenges.

Reduce and gradually eliminate the 54¢-per-gallon tariff on ethanol imports, as well as subsidies on corn-based ethanol.

The tariff keeps more efficient, lower-cost ethanol imports out of U.S. markets, reducing Americans' access to relatively cheap, sustainable fuel. The tariff would have to be reduced gradually to avoid disruptive increases in demand and to give foreign ethanol producers time to adapt.

The removal of subsidies for corn-based ethanol would mitigate the rise in food prices caused in part by greater demand for corn and other grains. According to the U.S. Agriculture Department's former chief economist, increased demand for corn used in ethanol production has accounted for between 25 and 60 percent of corn price increases since 2006. Another study, by the OECD and the International Energy Agency, estimates that current biofuel support measures, including subsidies, will increase average wheat, maize, and vegetable oil prices by, respectively, about 5, 7, and 19 percent.

In partnership with other governments in the hemisphere, establish a Renewable Energy Laboratory of the Americas to promote hemispheric cooperation on developing solar, wind, and cellulosic-biomass technologies.

Joint funding for this laboratory should be allocated for an initial ten-year period, at a level of at least $200 million per year. The laboratory should be located in Central America or South America to encourage more exchanges of technical personnel and technology transfers. Its activities should also include Caribbean countries.

Intensify hemispheric cooperation on the peaceful use of nuclear energy.

Growing demand for nuclear energy will raise proliferation risks and require greater international oversight of uranium enrichment and the reprocessing of spent nuclear fuel. The United States, in cooperation with the other countries in the hemisphere, including Brazil and Canada, should help establish a framework and dialogue to ensure that non-nuclear-weapons states have access to civilian nuclear power while abiding by appropriate safeguards to prevent the diversion of nuclear technology and materials for military purposes.

Key issues where a hemispheric consensus is needed include agreement on an international nuclear fuel bank, international supervision of the fuel cycle and the reprocessing of spent fuel, universal acceptance of the additional protocol on inspections, and the effective management of nuclear waste. The United States should advance this common position as part of the negotiations leading to the Non-Proliferation Treaty review conference in May 2010.

Help finance the integration of electric grids across the LAC region, especially in South America and Central America.

Integrating electric grids will increase efficiency and facilitate the distribution of electricity generated with clean, renewable fuels. The potential is greatest in Central America, where distances are relatively small. Integration between South and Central America can begin with the construction of a 200-kilometer power grid between Colombia and Panama, which will allow Central America to benefit from lower-cost energy sources. To do so, U.S. public investment agencies (e.g., the Overseas Private Investment Corporation) should designate a window for guaranteeing energy infrastructure investments. The United States should help mobilize financing from the Inter-American Development Bank as well.

Promote regulatory regimes that are open to private energy investment and trade in energy technology and services.

In cooperation with its hemispheric neighbors, the U.S. government should ask the Inter-American Development Bank to develop best-practice guidelines for energy infrastructure investment to facilitate capital flows and business opportunities. The Bank might identify lessons in energy integration applicable to South America that can lead to more efficient integration.

MANAGING MIGRATION EFFECTIVELY

Migration is a powerful and dynamic force changing economies and societies across the Western Hemisphere. Half a million Bolivians and a quarter-million Paraguayans have migrated to Argentina. Hundreds of thousands of Colombians live in Venezuela today, and thousands of Nicaraguans reside in Costa Rica. But by far the most important migration flows have been from the LAC countries to the United States—nearly 40 million people have migrated from the LAC region to the hemisphere's largest economy. At the same time, immigration has become highly controversial in U.S. politics and has become a major source of tension in U.S. relations with some LAC countries, especially Mexico, which is by far the largest migrant-sending country.

On balance, the impact of immigration on the U.S. economy has been significant and positive. Estimates of the net benefits to the U.S. economy put immigrants' net contribution at $50 billion per year. Immigrants boost economic output by increasing the size of the U.S. workforce and the productivity of American firms. In the 1990s, half the growth in the U.S. labor force came from new immigrants. Fifteen percent of the U.S. civilian labor force is foreign born, with about 40 percent of it coming from a LAC country. On balance, immigrants pay enough or more in federal, state, and local taxes to offset what they consume in public services. Low-skilled immigrants (a category that includes most immigrants from the LAC countries) contribute to the economy by complementing an increasingly educated native-born workforce.

In the decades ahead, the U.S. economy will continue to demand immigrant labor. Because of historically low U.S. birthrates and the aging of the baby boom generation, the total number of native-born workers will grow very little between 2000 and 2020. Those workers will be, on average, better educated every year and therefore less likely to accept unskilled jobs. Immigrants and their offspring will be crucial for filling those jobs, keeping the U.S. labor force young and dynamic, and for keeping the pension system in balance.

For the hemispheric labor market to function, illegal immigration must be addressed. Its negative effects are a product of its illegal nature, not of immigration itself. Illegality pervades the lives of undocumented workers, undermines the rule of law in the United States, and exposes immigrants to abuse. It also harms native-born workers and legal immigrants by making them less competitive in some segments of the labor market, and it exacerbates social and cultural tensions that can stigmatize law-abiding Hispanic and Latino residents and U.S. citizens. In the United States, the chief beneficiaries of illegal immigration are lawbreaking employers and smugglers of illicit goods and people.

An Ineffective Approach

The current U.S. approach to immigration—based largely on devoting more and more resources to border control—has failed to achieve its objectives. The number of border patrol officers has more than tripled since 1996 to 18,000—about 9 officers per mile of border. Line-watch hours spent policing the U.S. border have increased annually from 2 million to more than 9 million. The ongoing construction of a 700-mile-long, 16-foot fence along segments of the United States–Mexico border has become the most visible symbol of this approach.

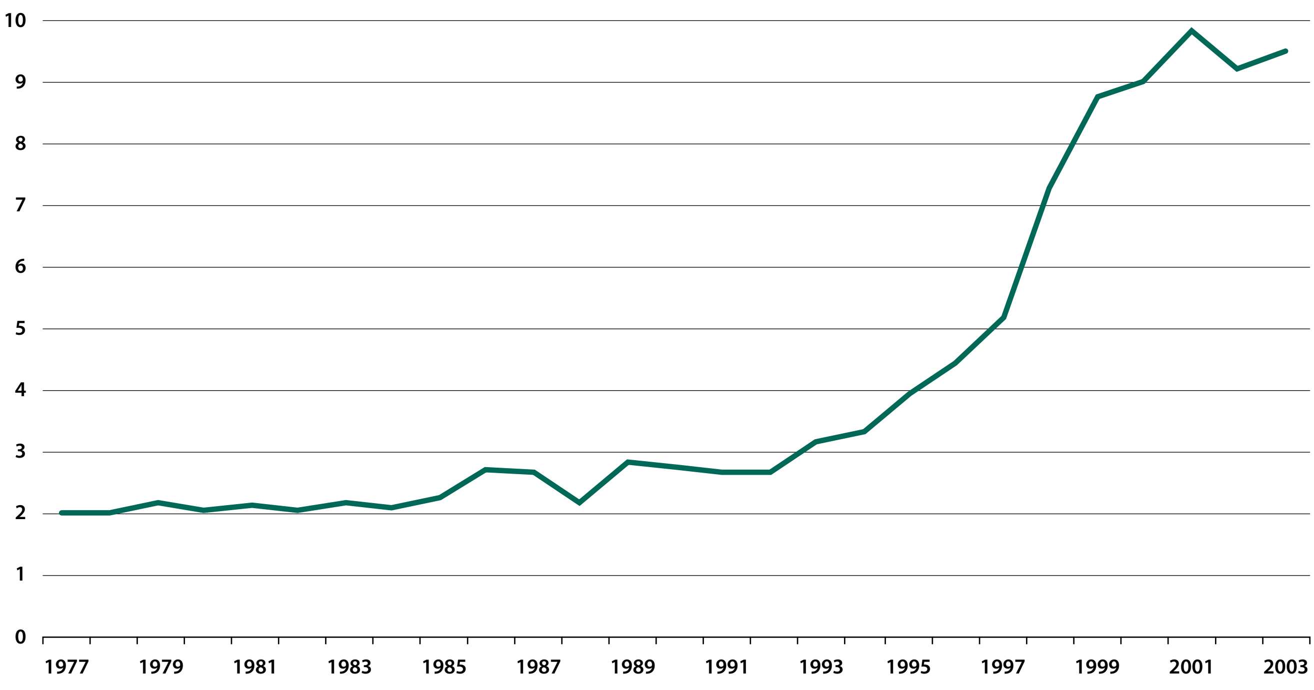
About half of this fence has been completed, and its total eventual cost is estimated at $6–12 billion.

Yet increases in funding, the construction of the border fence, and the expansion of the U.S. Border Patrol have not had a significant impact on illegal immigration flows. Since 2000, the size of the illegal immigrant population has grown by more than 40 percent; four out of five of these immigrants come from a LAC country. As figure 4 indicates, the number of hours spent policing the border has increased dramatically since the early 1990s. However, studies based on interviews with illegal migrants suggest that the probability of apprehension has remained constant. Meanwhile, the fence damages the global image of a country that has historically prided itself on its open immigration policy.

There are several reasons for this failure. The first is that the flow of people and vehicles across the border is so large that policing it effectively is extremely difficult, regardless of the resources allocated to border control. Mexico is the United States' third-largest trading partner, and most of that trade crosses by land. Every *day*, there are 1 million legal crossings of the United States–Mexico border. A quarter-million private vehicles and 12,000 trucks cross the border into the United States daily, without counting the traffic running in the opposite direction. Even with large budgets and modern equipment, the U.S. Border Patrol can only inspect a small fraction of the vehicles and persons entering the United States.

In addition, tighter policing has made illegal border crossing more dangerous and expensive for migrants, but this has neither

Figure 4.
Border Enforcement Intensity 1977–2003: Linewatch hours (millions)



Source: Cornelius 2008.

deterred them from attempting to cross nor prevented them from succeeding. Those intent on crossing the border have found new ways to circumvent more stringent policing. Immigrants are increasingly turning to professional people smugglers, known as *coyotes*, whose fee for helping migrants cross has nearly quadrupled since the early 1990s to more than $2,000 per person today. Hiring a *coyote* virtually guarantees entry into the United States, and the promise of tenfold increases in earning power in the United States remains a powerful enticement for would-be immigrants.

More illegal immigrants are also using legal ports of entry to enter the country with fake documents or by making false declarations of U.S. citizenship. According to a recent Government Accountability Office study using undercover investigators, the probability of a successful crossing through legal ports of entry is 93 percent. The increased costs and risks of crossing the border are having an unintended, negative effect for the United States: They are creating incentives for migrants to resettle permanently in the United States, rather than to go back and forth between the two countries based on shifts in U.S. labor demand.

Meanwhile, enforcement of immigration laws inside the United States remains weak, primarily in the workplace. From 1986 to 2002, the U.S. government directed 60 percent of immigration enforcement funding to border control—six times the amount allocated to internal law enforcement. Among the OECD countries, the United States has some of the weakest employer sanctions for hiring illegal workers, and workplace enforcement in the United States is inconsistent and easily avoided.

The failure of the U.S. Congress and federal government to agree on comprehensive immigration reform has led state and local governments to devise their own solutions, creating a patchwork of policies ranging from welcoming and inclusive to exclusionary and hostile. In 2007, 1,059 immigration-related bills and resolutions were introduced in state legislatures nationwide. Of these, 167 have been enacted. Many more initiatives and ordinances have been introduced at the city and county levels.

So far, the problem of illegal immigration has been treated by the U.S. authorities mainly as a law enforcement problem to be handled primarily, if not exclusively, by the United States. However, to develop more effective policies, migration needs to be framed in a wider context. Immigration is a transnational issue whose effective management requires cooperation between migrant-sending and -receiving countries. If migration from the LAC countries to the United States is to be legal, humane, and responsive to the economic needs of both the receiving and sending countries, both sides must accept certain responsibilities.

Recommendations

The United States should establish groups at the working and ministerial levels to discuss migration issues regularly with key migrant-sending countries, including Mexico and El Salvador.

Several issues should be on these groups' agendas:

- Designing institutional arrangements to facilitate orderly and humane temporary worker programs that respond to changing demand in the U.S. labor market. These might include mechanisms for giving migrants orientation and training before entering the U.S. labor market;
- Collaborating to improve border security;
- Exploring schemes to promote return migration and improve returning immigrants' economic prospects;
- Jointly financing targeted economic development projects in migrant-sending areas.

Establish a three-part visa system made up of temporary, provisional, and permanent visas to encourage circular migration patterns.

This system would entail introducing a simplified *temporary* visa, renewable and with a duration of a year or less. This category would include students and seasonal or short-term workers; the category would include many unskilled workers. In addition, this system would introduce *provisional* visas for migrants qualified or recruited for jobs requiring skills in high demand. These would be three-year visas, renewable once, and would include the right to change employers. This status would provide a pathway to permanent immigration (a green card) and flexibility for immigrants unsure of whether they want to stay permanently in the United States or if the work in question is not permanent. These visas would be for workers of all skill levels. In addition, the number of *permanent* visas should be increased, placing priority on workers skilled in critical growth area sectors, rather than on family reunification.

Establish a Standing Commission on Immigration and Labor Markets.

This Commission would be an independent federal agency. It would annually set the number of visas available in each category, based on a careful analysis of U.S. labor market needs, unemployment patterns, and changing economic and demographic trends.

Provide U.S. law enforcement agencies and employers with the necessary tools to enforce workplace verification laws.

Introduce a biometric Social Security card to replace the currently outdated and easily forgeable version. This secure Social Security card alone would verify work eligibility. At the same time, the E-Verify system should be upgraded so that it is more reliable, user friendly, and available to all employers.

Expand investments in technology that enhance border efficiency and security, along both the United States–Mexico and United States–Canada borders.

This would include increasing investments in smart-border technology to prevent illegal immigration at legal ports of entry. Investments would be made in border infrastructure to avoid bottlenecks at major border crossings and to develop identification cards for frequent crossers to facilitate rapid passage. Greater intelligence sharing and joint efforts between U.S. and Mexican authorities should be encouraged.

Provide a path to legal status in the United States for illegal immigrants without a criminal record.

With a system in place for managing migration flows more effectively, the United States will be better positioned to deal with the sensitive question of the status of undocumented immigrants already in the country. Legal status improves immigrants' economic opportunities, gives them a stake in society, and has a positive effect on families and children. The path to legalization should include the payment of back taxes and fines. Legalization might result in the issuing of a temporary, provisional, or permanent visa, depending on how long the immigrant has been in the country.

Enhance joint efforts to protect the human rights of migrants.

Recent U.S. court cases have highlighted the importance of ensuring that immigrants—both legal and illegal—have adequate access to their home country's consular authorities if they are arrested and accused of crimes in the United States. Access to consular support is essential for providing those immigrants with due process and is consistent with U.S. obligations under domestic and international law and its desire to see overseas citizens treated fairly.

In addition, the federal government should more closely monitor immigration-related initiatives at the state and local levels and guard against measures that might violate the human rights of immigrants. The U.S. attorney general should actively litigate against such legislation, much of which has been shown to be unconstitutional.

Facilitate the inexpensive transfer of remittances.

The cost of remitting U.S. wage earnings to immigrants' home countries has fallen in recent years, but it can be reduced further. The U.S. government should promote—in cooperation with the private sector and international financial institutions—the adoption of technologies that lower the costs of remitting money, especially online banking and money transfers. The possibility of linking microfinance institutions, credit unions, and rural banks in the recipient country with mainstream U.S. banks should be explored. Income from remittances should not be subject to taxes or special fees in the recipient countries.

MAKING HEMISPHERIC ECONOMIC INTEGRATION WORK FOR ALL

In many ways, the core of the relationship between the United States and the LAC region is economic. U.S. companies and individuals have nearly $200 billion invested in the region, most of it in Mexico and Brazil. More than 18,000 U.S. companies have operations in Mexico, and a fifth of all U.S. trade is with the LAC countries. About 25 million U.S. residents travel to the LAC countries every year for business and pleasure. Households in the LAC countries received about $60 billion in remittance inflows in 2007 alone, much of it from relatives living in the United States. Mexico is by far the largest recipient of remittances in absolute terms, but in the small economies of El Salvador, Guyana, Haiti, Honduras, Jamaica, and Nicaragua, remittances represent a major share of national income.

The flows also run the other way. The LAC countries invest heavily in the United States. In 2007 alone, the United States received capital inflows of $120 billion from the LAC countries. About 17 million people from these countries visit the United States every year. The United States is the main trading partner of countries as diverse as Chile, Colombia, Mexico, Peru, and Venezuela. Trade and financial flows have grown over time, and in the process they have generated economic opportunities for all parties involved.

Nowhere has deepening hemispheric integration been clearer than in trade. Between 1996 and 2007, the cumulative growth of U.S. exports to the LAC region was higher than to all other regions and to the world as a whole, as shown in figure 5. Mexico remains by far the United States' most important trading partner in the LAC region (accounting for 58 percent of the region's trade with the United States), but U.S. trade with other LAC countries, especially Argentina, Brazil, Colombia, and Peru, has been growing at double-digit rates.

Trade with the LAC countries benefits the United States. It gives U.S. companies access to a $3.5 trillion market of 600 million people and access to low-cost suppliers, which increases their competitiveness in world markets. The LAC countries buy goods produced by skilled workers in the United States, and these workers benefit from greater demand for their labor and receive higher wages. Meanwhile, shareholders in U.S. companies benefit from more competitive and profitable firms, and American consumers enjoy access to lower-priced goods of greater quality and variety.

At the same time, trade with the United States is critical to the economies of many LAC countries. Trade accounts for a third of Mexico's economy, and more than 80 percent of its exports go to the United States. All the Central American, Caribbean, and Andean countries count the United States as their single most important export market, with between 40 and 50 percent of their total exports headed to the hemisphere's largest economy.

Hemispheric Trade: Running Out of Steam?

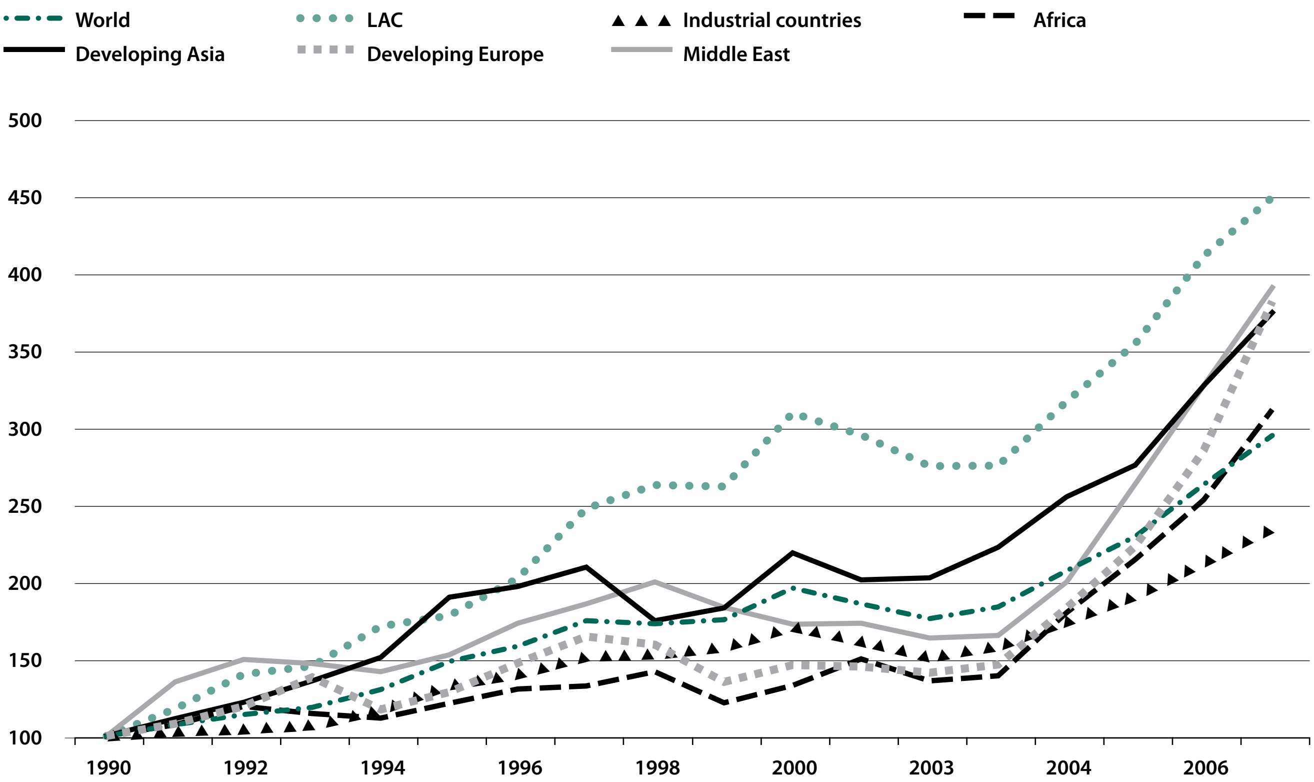
Despite the benefits of hemispheric trade, domestic political support for trade liberalization is weakening in the United States. Between December 1999 and March 2007, the number of Americans who believe that trade agreements hurt the United States grew by 16 percentage points, to 46 percent, while the number of those who believe trade helps the country fell by 11 points, to 28 percent. The North American Free Trade Agreement—a symbol of trade and investment integration more generally—has come under intense criticism.

Flagging support for trade is based on Americans' fear that they are not adequately protected from the painful adjustments that can come with economic integration. Programs designed to help U.S. workers deal with trade-related dislocation, including the Trade Adjustment Assistance (TAA) program, remain ineffective, hard to use, and underfunded. TAA in particular has been criticized for not addressing the most harmful long-term impact of work displacement that the middle class faces: reentry into the labor force at a lower salary. TAA has also been criticized for being so cumbersome that it deters potential applicants. Similar programs adopted in other countries have faced similar difficulties.

Political support for trade has also waned abroad. The Doha Round of multilateral trade negotiations has stalled, and skepticism is growing in Latin America about the benefits of free trade. The process for creating a Free Trade Area of the Americas (FTAA), first announced in 1994, has stagnated.

Trade agreements have become unpopular in the LAC countries because they have often been oversold. Trade has brought considerable economic benefits to these countries. Recent studies suggest that trade has raised median living standards in the region, especially in relatively open countries, such as Chile, Argentina, and Mexico. But trade, by itself, is not a development or poverty-reduction strategy, and it should not be sold as a panacea for poverty or inequality. In the absence of other policies, the benefits of trade are uneven and tend to be concentrated in certain economic sectors, geographic regions, and segments of the labor force. Populations that are

Figure 5.
U.S. Export Growth to the World, by Region, 1990–2007 **(1990=100)**

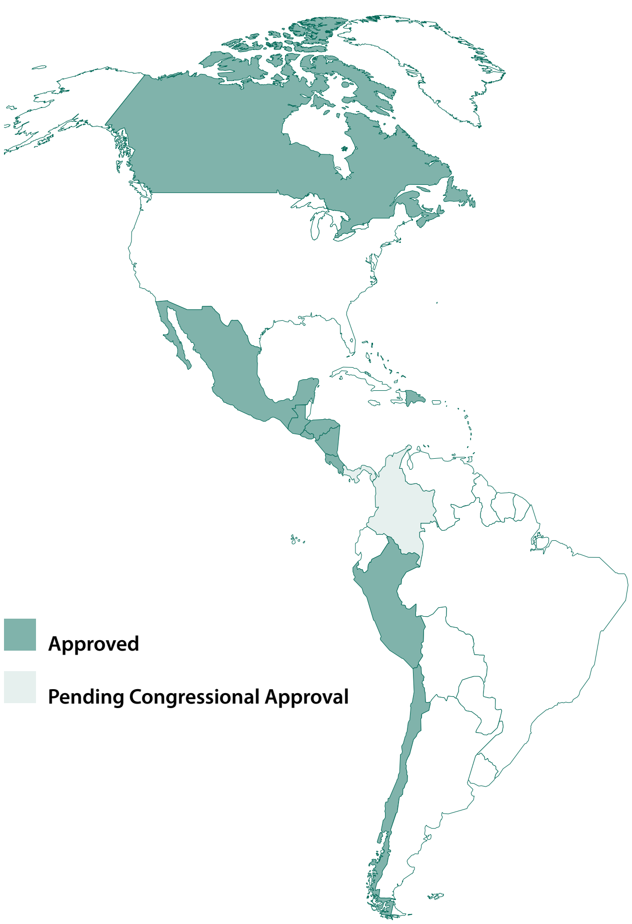


Source: Secretariat calculations based on International Monetary Fund 2008a.

marginalized from the rest of the economy for geographic, ethnic, or political reasons are unlikely to partake in the benefits of free trade. Trade initiatives must work in tandem with targeted development and poverty-reduction policies.

With the Doha Round gridlocked and the FTAA fading, bilateral trade deals have become the preferred method for expanding U.S.-LAC trade. Since 2003, the United States has signed trade agreements with Chile, Peru, Panama, Colombia, and—through the Central America–Dominican Republic–United States Free Trade Agreement—Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. The Colombia and Panama agreements are still awaiting congressional approval in the United States. Figure 6 shows all the countries in the Americas with which the United States has signed bilateral trade agreements.

Figure 6.
Countries in the Americas with Free Trade Agreements with the United States



Source: Secretariat editing based on the Office of the United States Trade Representative.

The trend toward bilateral free trade agreements is not a welcome development. Compared with multilateral agreements, bilateral agreements are an inferior way to promote trade. These bilateral agreements create trade diversion, make trade rules and regulations complex and cumbersome, draw political and diplomatic resources away from multilateral trade negotiations, and put relatively small economies in bilateral negotiations with the United States, where they have limited leverage. Bilateral agreements should be seen, at best, as very imperfect substitutes for multilateral trade liberalization.

Recommendations

The U.S. Congress, to protect its credibility, should approve the Colombia and Panama free trade agreements as soon as possible. It should then deemphasize the bilateral approach to trade negotiations.

The governments of Colombia and Panama negotiated in good faith with the United States. They also made—from the perspective of their own people—significant concessions, earned political acceptance for the agreements at home, and obtained agreement from the U.S. executive branch. The quiet death of these agreements would deal a serious blow to Washington's credibility in the region, at least as far as trade is concerned. The approval of these agreements would also help stimulate the economies of the United States, Colombia, and Panama at a time of global economic challenges.

Redouble efforts to pursue a successful conclusion to the Doha Round of multilateral trade negotiations.

The successful conclusion of the Doha Round—one that includes meaningful reform of agricultural subsidies and market access—is the best way to liberalize trade in the Americas. Without it, there can be little chance for a successful hemispheric agreement. The successful conclusion of the Doha Round has become especially critical to help the United States, the hemisphere, and the world recover from the current crisis. The United States should work closely with Brazil and other major trading powers to reach a substantive multilateral agreement. Congress also needs to rethink its approach to agricultural and other subsidies.

If the Doha Round negotiations continue to drag on, the United States should consider a "third way" between global trade negotiations and bilateral agreements—by deepening hemispheric economic cooperation multilaterally, through incremental arrangements.

At a minimum, the United States should continue to deepen economic integration with the LAC countries, with which it already has free trade agreements, by building on and improving existing forums. Reducing the cost of shipping goods and services across North American borders should remain a priority. Barriers to regional transportation should be scaled back and removed, as envisioned in the North American Free Trade Agreement. At the same time, the United States should work with its bilateral trading partners in Central America, South America, and the Caribbean. The recently launched Pathways to Prosperity in the Americas initiative—a forum that brings together the United States and eleven countries with which it has signed trade agreements—could be a starting point.

Going further, the United States should explore a framework for extending to all countries in the LAC region the best market access it has already granted through individual free trade agreements—a sort of most-favored-nation status for the whole region. At the heart of this process must be a series of strategic agreements with Brazil covering key issues of special interest to both countries, including biofuels, financial services, government procurement, and agriculture. A strategic commercial understanding between the United States and Brazil could help push forward global and regional trade negotiations.

Address the legitimate concerns of U.S. workers through more effective investments in social safety nets and education.

Ultimately, addressing these concerns is the only way to secure durable domestic political support in the United States for free trade with the LAC region and other countries. The U.S. government should build on the 2002 Trade Adjustment Assistance Reform Act, expanding the total amount of funding available for TAA, the length of time workers may be eligible for assistance, and the amount of support per worker, including expanded job search and relocation allowances, health care coverage during transitions, and greater compensation for permanent salary differentials. Also, the application process should be streamlined, and extending TAA to the services sector should be considered. Worker training should be closely attuned to the skills required by employers in the economy. Trade adjustment should be conceived more broadly as labor adjustment—it should address the displacement of workers not only by trade but also by technology. Strengthening the United States' education system is, of course, crucial to sustaining its competitiveness and reducing job insecurity.

Expand the number of double-taxation and investment protection treaties to facilitate investment.

To complement trade and strengthen investment flows, the United States should take the lead in negotiating agreements with the LAC countries to avoid the double taxation of individuals and corporations, while at the same time reducing opportunities for tax evasion. The United States has already signed such agreements with a variety of countries. A regional taxation treaty should be given serious consideration. Investment protection treaties to reduce the risk of expropriation would also facilitate investment flows across borders.

Emphasize trade facilitation and trade adjustment issues in U.S. foreign assistance programs to the LAC countries.

Funding for trade facilitation efforts should be increased to help all countries take full advantage of trade and to link marginalized regions and populations to regional and global markets. The U.S. government should work bilaterally and through the Inter-American Development Bank to increase funding for hemispheric transportation infrastructure and technology. Existing aid-for-trade programs should be expanded, and foreign assistance should pay special attention to helping countries craft better trade adjustment assistance programs. Transitional strategies for dealing with trade-related worker dislocation should become an integral part of trade negotiations in the hemisphere.

This does not mean that the United States should phase out other kinds of economic assistance to LAC countries. On the contrary, Washington should renew its commitment to assist governments in the region in improving the lives of the poorest people through programs that allow more sectors to reap the benefits of trade. It should also help mobilize U.S. private giving to the region.

PROTECTING THE HEMISPHERE FROM DRUGS AND ORGANIZED CRIME

Crime and insecurity are growing scourges in the Western Hemisphere. The LAC region has only 9 percent of the world's population, yet it has 27 percent of global homicides—about 140,000 a year. Crime, especially organized crime, poses a serious threat to public security and undermines public institutions and the legitimate business sector. Organized crime in the hemisphere today encompasses a variety of criminal enterprises, including narcotics trafficking, money laundering, alien smuggling, human trafficking, kidnapping, and arms and counterfeit goods smuggling.

The United States stands at the crossroads of many of these illicit flows. Violent youth gangs, such as the Mara Salvatrucha, have a presence in the United States. Some 2,000 guns cross the United States–Mexico border from north to south every day, helping to fuel violence among drug cartels and with the army and police. About 17,500 persons are smuggled into the United States annually as trafficking victims, and another 500,000 come as illegal immigrants. The United States remains both a leading consuming country across the full range of illicit narcotics and a country with major domestic production of methamphetamines, cannabis, and other synthetic narcotics.

The nations of the Western Hemisphere have adopted a variety of international instruments to tackle organized crime. Virtually every country in the Americas has ratified the 2000 UN Convention against Transnational Organized Crime. Most of the hemisphere's countries have also signed and ratified international agreements that deal with the trafficking of persons, the smuggling of migrants, illicit firearms trafficking, and the illicit drug trade. Yet a significant reduction in crime in the hemisphere remains elusive.

The narcotics trade remains at the core of organized crime in the hemisphere. This is by far the most lucrative of illegal trades, generating hundreds of billions of dollars a year. Its immense cash flow, vast employment opportunities, and sophisticated networks feed other kinds of criminal activity and allow drug traffickers to adapt with extraordinary speed to governments' counternarcotics efforts. The drug trade is also singularly adept at corrupting judicial, political, and law enforcement institutions. In Mexico, open war between the cartels and all levels of government has killed 4,000 people so far in 2008 alone—about as many casualties as the United States has sustained in almost six years of war in Iraq. This violence already threatens to spill into the United States and to destabilize Mexico's political institutions.

Because it lies at the core of regional criminal activity, this section focuses on the illegal drug trade. A hemisphere-wide counternarcotics strategy encompassing consuming, producing, and transshipment countries is required to combat not only the illegal drug trade but also other forms of crime.

The Failed War on Drugs

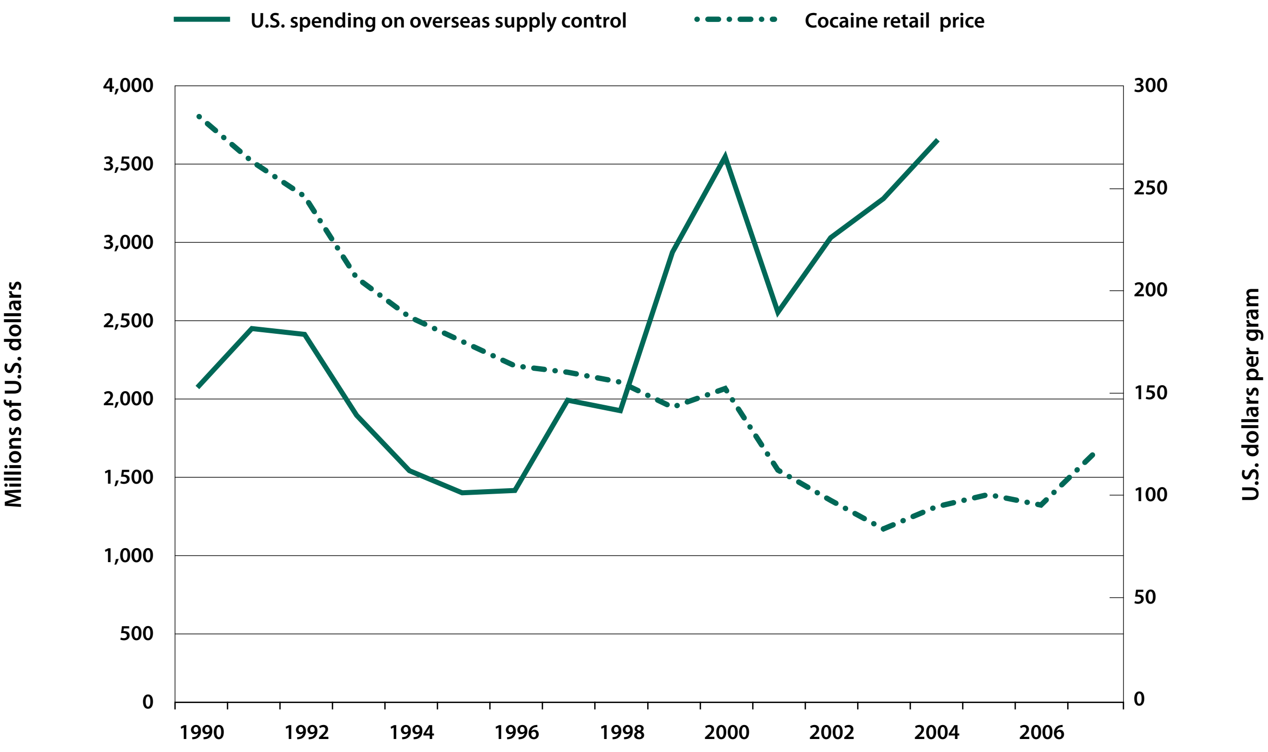
So far, U.S. policies to reduce the supply of illegal drugs have focused primarily on the destruction of illicit crops (eradication) and on the disruption of drug flows along trafficking routes (interdiction). In Colombia alone, 220,000 hectares of coca were eradicated in 2007. Interdiction efforts have similarly resulted in record-breaking figures, with seizures representing perhaps as much as 40 percent of smuggled cocaine. On the demand side, the U.S. government has emphasized tough laws for drug offenses, strict law enforcement, and long jail sentences for drug distributors and users. All these policies have intensified over the last three decades, with more illegal crops sprayed, more drug seizures undertaken, and more people imprisoned for drug use or distribution.

The United States has devoted significant resources to these efforts. According to the 2008 budget released by the Office of National Drug Control Policy, the United States currently spends about $21 billion on supply reduction and domestic law enforcement. Of this total amount, about $14 billion is spent by state and federal authorities on the incarceration of drug offenders. During the past three decades, the number of people incarcerated in the United States for direct drug offenses increased tenfold, from 50,000 in 1980 to 500,000 in 2007.

However, current U.S. counternarcotics policies are failing by most objective measures. Drug use in the United States has not declined significantly. Since the peak of the heroin and cocaine epidemics of the mid-1980s, consumption rates for these narcotics have remained more or less stable, at approximately 1 million heroin users and 3.3 million cocaine users. At the same time, methamphetamine use has spread, especially in the western United States, resulting in a combined prevalence rate of more than 6 million users. Despite some of the world's strictest drug laws, combined hardcore-user prevalence rates for hard drugs are four times higher in the United States than in Europe. New consumer markets have also emerged throughout the LAC region, particularly in Brazil and Mexico.

Falling retail drug prices reflect the failure of efforts to reduce the supply of drugs. Between 1980 and 2007, the street prices

Figure 7.
U.S. Spending on the War on Drugs Overseas and Cocaine Retail Prices, 1990–2006



Note: Data on overseas supply control spending were not available for 2005, 2006, and 2007.

Sources: Spending: Washington Office on Latin America 2005; Prices: United Nations 2008.

of cocaine and heroin fell steadily and dramatically, suggesting that their supply remains plentiful. Today, the street price of cocaine is a quarter of what it was in 1981 in nominal terms; since 1990, the cost of a gram of cocaine has fallen from about $300 to $100. Figure 7 shows this decline, which contrasts sharply with the escalation in resources spent by the U.S. government on overseas eradication and interdiction.

There are several reasons for the failure of the war on drugs. Eradication efforts have not delivered sustained reductions in drug production. Total coca leaf and cocaine production in the Andean region is currently at historic highs, with Colombia still the dominant producer. The most recent cultivation estimates for the region stand at 236,000 hectares—higher than the 200,000 hectares baseline around which cultivation had hovered since the mid-1980s. Though policymakers can point to pockets of success at specific times in particular countries, counternarcotics policies have simply displaced cultivation and trafficking from one country or region to another, without reducing the overall supply of drugs. Meanwhile, legal alternative livelihoods are available to only a fraction of the populations dependent on illicit crop cultivation.

The only long-run solution to the problem of illegal narcotics is to reduce the demand for drugs in the major consuming countries, including the United States. Yet U.S. drug prevention and treatment programs remain severely underfunded and underprovided. Only about 850,000 of an estimated 6 million drug users have been admitted to publicly funded drug rehabilitation programs, and only 55,000 of about 1.5 million at-risk arrestees have access to addiction treatment. Intravenous drug use remains a major cause of the spread of HIV and hepatitis in the hemisphere.

A major effort to reduce demand for drugs has been the Drug Abuse Resistance Education program (DARE), which involves a series of police-officer-led classroom lessons taught in schools across the United States from kindergarten to twelfth grade. However, the program has been criticized for its design and content. Another major initiative has been drug courts—specialized courts that place drug users under supervision in drug treatment programs instead of sending them to jail. Since the first drug court was established in Miami in 1989, the concept has spread to 2,200 courtrooms in every state, though these courts still process only a small fraction of addicted criminals.

Recommendations

The Commission's recommendations on this matter should be regarded as a single package of mutually complementary policies. Each measure is necessary, but not sufficient, to address the problem of illegal narcotics; they will only have a real chance to yield results if they are implemented as a comprehensive strategy. The recommendations include domestic policies that the United States can adopt unilaterally, as well as actions that the U.S. government should undertake in cooperation with other countries in the hemisphere.

Undertake a comparative evaluation of counternarcotics measures.

The U.S. government should undertake a comprehensive, cross-country evaluation of the effectiveness of counternarcotics policies—on both the demand and supply sides—and how they can best be streamlined with respect to law enforcement, economic development, and public health policies. The study should assess the effectiveness of a full range of options, including different law enforcement and penalization schemes, prevention, treatment, and harm-reduction approaches. The study should examine in depth the experiences of other countries and regions, including Europe, Canada, and Asia.

The study should address such critical questions as

- What policies are most effective at reducing drug consumption?
- What policies best minimize the harms to society caused by drug use?
- What law enforcement and interdiction policies minimize violence and corruption?
- Under what conditions can lasting reductions in narcotics production be achieved?
- How can counternarcotics policies be harmonized with other security objectives, such as counterterrorism?

Launch a hemispheric dialogue on illegal drugs.

Policies to reduce narcotics demand in consuming countries affect producing and transshipment countries. Similarly, policies that affect drug supply also have repercussions in consuming countries. Therefore, the United States should take the lead in convening an ongoing, hemispheric dialogue at both the ministerial and working levels to share experiences, identify workable policies, and find concrete ways to coordinate counternarcotics efforts, on both the demand and supply sides. This dialogue should involve not only Mexico and Colombia but also countries that are increasingly affected by the spread of transnational drug networks, such as Brazil and Cuba.

Combine eradication efforts with policies to promote alternative livelihoods and more effective interdiction.

In the narcotics-producing countries, legal alternative livelihoods are still available to only a fraction of the populations dependent on illicit crop cultivation. Unless eradication is accompanied by legal economic alternatives, eradication efforts will only displace more illicit crops within and across countries and impoverish marginalized populations, alienating them from the state and making them easy prey for armed and criminal groups. Eradication should also be combined with better-targeted interdiction efforts.

Ratify the UN Protocol Against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition.

In the spirit of fairness and partnership, the United States should take responsibility for stemming the southward flow of weapons, at the same time that LAC countries make commitments to curtail drug production and trafficking. Ratification of the UN Protocol is a good place to start. It entered into effect in 2005 and has been signed by 52 countries, including Brazil, Mexico, and major U.S. allies.

Launch pilot projects based on the most promising harm-reduction approaches.

Using the findings of the study recommended above, pilot projects should be launched, on a limited and experimental basis, based on harm-reduction policies that appear to work elsewhere. Pilot projects that demonstrate potential can then be scaled up.

Increase substantially the amount of federal and state funds available to drug courts and related treatment programs.

Currently, roughly 2,200 U.S. drug courts receive federal and local funds. In 2007, the U.S. Justice Department reported that, at current levels, the drug court system can treat only about 55,000 of the 110,000 eligible arrestees. Studies demonstrate that drug courts are a cost-effective way to reduce drug use and associated crime. Also, compared with standard incarceration, the supervised treatment that drug courts encourage appears to substantially reduce various types of harm associated with drug use. Funding for related treatment programs should also be expanded, as drug courts will not be effective if they have nowhere to send addicts.

Complement drug-prevention programs in schools with drug education outside the classroom.

Existing studies of prevention programs, frequently drawing on the U.S. anti-cigarette-smoking campaign, demonstrate the importance of enhancing efforts outside the classroom. The U.S. government should complement existing school programs with campaigns such as the "Frank" campaign in the United Kingdom, which disseminates advice online and by telephone. This program, coupled with a classroom education component, reaches 96 percent of children in secondary schools. School programs themselves should be rigorously evaluated and, when necessary, redesigned.

Customize the messages of drug-prevention campaigns to specific target groups.

Studies of drug prevention campaigns have highlighted the importance of using customized messages when targeting specific groups. For example, adolescents are frequently less concerned about health effects than older adults. As a result, campaigns centering on health risks have been ineffective among adolescents. However, campaigns that deal with issues that adolescents care about—such as physical appearance—can be far more effective. A recent education campaign that was especially effective focused on methamphetamines use in the western United States. It emphasized the disastrous cosmetic effects (for example, toothless mouths) of crystal meth use, leading to a significant decline in meth consumption in the area targeted by the campaign.

CUBA AND THE UNITED STATES: RETHINKING A TROUBLED RELATIONSHIP

U.S.-Cuban relations have disproportionately dominated U.S. policy toward the LAC region for years. Tensions generated by U.S. policies toward Cuba have affected the United States' image in the region and have hindered Washington's ability to work constructively with other countries. For this reason, addressing U.S. policy toward Cuba has implications that go beyond the bilateral relationship and affect U.S. relations with the rest of the LAC region more generally. Political change in Washington, combined with recent demographic and ideological shifts in the Cuban American community and recent leadership changes in Cuba itself, offer a valuable opportunity to change course.

Though the reforms enacted recently in Cuba have thus far been mostly cosmetic, they could create openings for grassroots political and economic activity. The removal of restrictions on access to tourist facilities and on the purchase of mobile telephones and computers may have an important psychological impact and increase contact with the outside world. Also, the Cuban government has recently lifted all wage caps, started to allow performance bonuses for certain salaried professions, liberalized the sale of farming equipment, and begun to lease idle state lands to increase agricultural output. These reforms may improve labor incentives, purchasing power, and productivity.

Economic developments in Cuba will affect U.S.-Cuban relations. Today, the United States is Cuba's fourth-largest trading partner; in 2007, it sold the island $582 million worth of goods (including shipping costs). Cuba is currently exploring its prospects for energy production in both sugarcane-based ethanol and offshore oil. Spanish, Canadian, Norwegian, Brazilian, Indian, and other international oil companies have secured contracts to explore drilling possibilities off the Cuban coast. If the ethanol and oil industries become fully operational in five to seven years, revenues of $3 billion to $5 billion annually could significantly strengthen the Cuban economy and reduce the government's vulnerability to external political pressure. With stable inflows of hard currency from oil sales, the Cuban government would have more funds to use at its discretion, further eroding the effects of the U.S. embargo on trade with Cuba.

Demographic and ideological shifts in the Cuban American community in the United States add to the prospects for reorienting U.S.-Cuban relations. The Cuban American population is getting younger demographically, and its priorities regarding Cuba have shifted from a traditional hard line to a focus on the day-to-day existence of those living on the island. According to 2007 polls by Florida International University, Cuban Americans are increasingly opposed to current U.S. policy, particularly restrictions on family travel, caps on remittances, and limitations on the sale of medical and other vital supplies to Cuba; 64 percent of those polled support a return to the more liberal policies of 2003. The Cuban American community has historically played a central role in U.S. domestic politics, with strong influence in the state of Florida. This shift in public opinion may ease the path toward reorientation for policymakers in Washington.

The view of this Commission is that U.S. policy should be reframed to enable legitimate Cuban voices to shape a representative, accountable, and sustainable transition to democracy. The Cuban people should be empowered to drive sustainable change from within by facilitating the free flow of information and expanding diplomatic networks to support human rights and democratic governance.

Recommendations

The recommendations on this issue fall into three categories: those that can be implemented unilaterally by the United States; those that require bilateral talks between Washington and Havana; and those that are multilateral, demanding cooperation among several governments. The recommendations are listed sequentially, starting with those that should be implemented immediately by the U.S. government. The timing of bilateral and multilateral recommendations would be determined by how intergovernmental negotiations and discussions evolve.

Lift all restrictions on travel to Cuba by Americans.

The ability of Americans to travel to Cuba would allow for better understanding, promote small businesses, and provide information to the Cuban people.

Repeal of all aspects of the "communications embargo" (radio, TV, Internet) and readjust regulations governing trade in low-technology communications equipment.

Liberalize regulations on the sale of all communications equipment, including computers, as admissible under the State Sponsors of Terrorism List under the Export Administration Act and the Foreign Assistance Act. This would encourage the transfer of information and a freer flow of ideas.

Remove caps and targeting restrictions on remittances.

The amount of money that visitors may take to Cuba should reflect the U.S. government's limits for other countries. These financial measures would help get resources directly into the hands of ordinary Cubans, empowering them, improving their standard of living, and reducing their dependence on the state.

Take Cuba off the State Department's State Sponsors of Terrorism List.

This classification is widely deemed to be factually inaccurate. There has been no evidence in the past decade to maintain this classification for Cuba, and top U.S. military leaders have called for the country's removal from the list. Doing so would reframe U.S.-Cuban relations in a less combative light, allowing for a more constructive approach to foreign policy.

Promote knowledge and reconciliation by permitting federal funding of cultural, academic, and sports exchanges.

These exchanges would facilitate nonpolitical contact and dialogue between citizens of the two countries, bringing diverse ideas into Cuba. In parallel, U.S. nongovernmental organizations should be encouraged to establish ties with their Cuban counterparts and enhance grassroots dialogue. More broadly, the United States should work with Cuba to maximize human contacts, drawing on the full range of U.S. government programs for educational and cultural exchange, including at the high school, university, and postgraduate levels. Youth groups should be supported in establishing networks through student exchanges, home stays, video conferences, and media channels.

Provide assistance to the Cuban people in recovering from natural and human-made disasters.

This would entail removing restrictions on the donation and sale of humanitarian goods and agricultural products to Cuba, including medicine, medical equipment, and food. It would also allow the licensing of construction and other goods needed to support postdisaster recovery efforts. U.S.-Cuban bilateral talks would be opened on responses to a variety of emergencies, including natural crises and mass migrations. The sale of medicine, medical equipment, and food would be allowed on commercial terms.

Encourage enhanced official contact and cooperation between U.S. and Cuban diplomats and governments.

Bilateral discussions should be expanded with Cuban officials on issues of mutual security, including migration, narcotics, organized crime, disaster management, public health, and environmental protection. The U.S. government should propose a twelve-month period of intense dialogue, targeted at the exchange of defense attachés and the appointment of ambassadors. Military-military and civilian-military contacts should be fostered. Respectful and cordial relations would be resumed by allowing the Cuban Interests Section in Washington access to U.S. policymakers and expect reciprocity in Havana.

Diplomatic travel for the staffs of both interests sections would be permitted, and their range of contacts would be expanded through the exchange of attachés.

End opposition to the reengagement of the international community with Cuba in regional and global economic and political organizations as a means to promote democracy.
This would include removing barriers to Cuba's observer status at key international financial institutions, particularly the Inter-American Development Bank, the World Bank, and the International Monetary Fund. Cuba should be allowed to participate in relevant seminars, and the international financial institutions should be allowed to conduct fact-finding missions in Cuba. The U.S. government should ask the Inter-American Development Bank to begin engaging Cuba in areas related to the financing of strategic development projects.

A key venue for hemispheric cooperation in a wide range of issues is the Organization of American States. Cuba's membership in the organization was suspended in 1962 after a majority of its members decided that a government that self-identified as Marxist-Leninist was "incompatible with the principles and objectives of the inter-American system." The U.S. government should not object to a decision by the organization to reengage Cuba, beginning with invitations to participate in technical and specialized agencies.

Work with the members of the European Union and other countries to create a multilateral fund for civil society that will train potential entrepreneurs in management and innovation.
Providing capital to establish small businesses that improve the livelihoods of large segments of the population could increase the demand from within Cuba for expanded economic freedoms and opportunities for advancement.

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