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before the

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“Year in Review: U.S. Policy Toward a Changing Western Hemisphere”

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Mr. Chairman and Members of the Subcommittee:

Thank you very much for this opportunity to testify about the numerous changes in the Western Hemisphere this past year and the challenges and opportunities for U.S. policy.¹

The December 6, 2015, legislative elections in Venezuela and presidential elections in Argentina on November 22 represent historic change for both countries. In Venezuela, and for the first time since the election of President Hugo Chávez in 1998, the opposition will control one of the branches of government. Yesterday the National Electoral Council (CNE) announced that the Democratic Unity Table (MUD), together with a small indigenous party, had reached the supermajority of two-thirds of the Assembly. But the opposition triumph against significant and pervasive distortions in the electoral playing field—from the disqualification, imprisonment, and murder of opposition candidates to the use of state resources for purposes of campaigning²—represents a turning point in Venezuelan politics and a fundamental challenge to the ruling PSUV party.

¹ I wish to thank colleagues Dinorah Azpuru, Michael Darden, and Meghan Greene for their helpful comments.

² Universidad Católica Andrés Bello and IDEA Internacional, “IDEA-UCAB Study Mission on Conditions for the 2015 Electoral Process, Preliminary Report,” Caracas, November 16, 2015; letter, OAS Secretary General Luis Almagro to Tibisay Lucena, November 10, 2015, 1-18.

The outcome of Argentina's presidential elections also represents a change in course. The victory from behind of center-right candidate Mauricio Macri ends twelve years of *kirchnerismo*, characterized by statist economic policies and a political style based on antagonism and confrontation domestically and abroad (including vis-à-vis the United States).

Although numerous factors converged to produce the electoral outcomes in Venezuela and Argentina, an important common denominator has to do with populist economics and their limitations. Venezuela is in a class by itself in terms of economic dysfunction; it has the highest inflation rate in the world, rampant shortages of the most basic consumer goods, and a decimated private sector. The economy is predicted to shrink by 10 percent this year, with additional declines in 2016. Meanwhile, Argentina's inflation rate is reported to be double the figure admitted by the government, productive investment is at a standstill, and a protracted stalemate with the so-called "hold-outs," (bondholders who refused a settlement of Argentina's debt obligations following its 2001 default) has frozen the country out of international capital markets. For many years in both Venezuela and Argentina, high global commodity prices—oil for Venezuela and soy and soy products for Argentina—sustained generous if poorly managed social policies that had a high initial impact in reducing poverty and, to some extent, inequality. But those policies were fiscally unsustainable³ particularly since 2010-11, when commodity prices began to collapse and oil prices in particular plummeted. Other distortions—the broad reach as opposed to selective targeting of energy subsidies in Argentina, for example—contributed to macroeconomic imbalances that were felt in the pocketbooks of average households. Rather than accept government claims that foreign aggression explained the economic troubles of Venezuela and Argentina, voters punished incumbent parties in favor of a political alternative.

The fall in commodity prices has had different effects across the hemisphere, but has contributed mightily to the economic slowdown suffered in most parts of the region. The first decade of the 21st century witnessed deep social transformation and sustained economic growth in most of Latin America, leading to unprecedented reductions in poverty and the growth of the middle class.⁴ According to the World Bank, tens of millions of people left poverty and the size of the middle class grew by 50 percent, even if those vulnerable to falling back into poverty constituted

³ See Kurt Weyland, "Populism and Social Policy in Latin America," in Carlos de la Torre and Cynthia J. Arnson, *Latin American Populism in the Twenty-First Century* (Washington, D.C. and Baltimore: Wilson Center Press and Johns Hopkins University Press, 2013), 117-44.

⁴ A number of factors contributed to the decline in poverty, including the implementation of redistributive social policies (particularly conditional cash transfer programs aimed at poor households), and fiscal and labor market reforms to encourage employment in the formal rather than informal sector.

the largest “class.”⁵ Now that regional growth projections have been slashed for the fifth consecutive year, to under 1 percent in 2015 and 2016, there is deep concern over the inability of those still poor to escape poverty, the renewed impoverishment of the vulnerable, and a reversal of modestly improving patterns of social mobility. These trends will undoubtedly have important political consequences.

The deep recession in Brazil, whose economy is projected to shrink by 3 percent this year after growing 6 percent a year in the mid-2000s, has multiple causes and is of concern not only to Brazilians but to the entire region. Brazil alone accounts for 40 percent of regional GDP and its stagnation has important consequences within Brazil—close to 900,000 jobs have been lost this year—and for the country’s trading partners in Latin America. The government of President Dilma Rousseff is mired in a massive corruption scandal involving the state-run oil giant Petrobras. With efforts to impeach her underway, Rousseff may lack the political capital and backing to enact fiscal and other economic reforms that would help restore the country to growth. Notably, the countries that have fared the best over the last two years—Mexico, Colombia, Chile, and Peru—are those that have pursued economic opening and liberalized international trade among themselves and with partners in North America, Europe, and especially Asia.⁶

At the same time that economic and social change in the region contributed to higher living standards, it has also contributed to civil societies that increasingly demand more of their political leaders and institutions. Across the region millions have taken to the streets in recent years to demand better quality education at lower cost and improvements in services from public transportation to garbage collection. What could appear as a negative—a seeming epidemic of corruption scandals in countries as diverse as Chile, Brazil, Peru, Mexico, Honduras, and Guatemala—can also be viewed positively as a reflection of citizens’ demands for higher ethical standards and more accountable government. The press has played a critical role in bringing these scandals to light. Tolerance for corruption appears to be at an all-time low in Latin America, something that can be interpreted as the maturation of democratic attitudes and, at times, institutions. Witness, for example, the role of the Brazilian judiciary in investigating and prosecuting public and private sector leaders embroiled in the Petrobras scandal, or the work of Guatemala’s Public Ministry (*Fiscalía*) which, backed by the United Nations Commission Against Impunity in Guatemala (CICIG) brought down a sitting president last September.

⁵ The Latin American Development Bank (CAF) indicated that the middle class increased from 19.4 percent of the population in 1981 to 33.3 percent in 2010, second only among developing regions to Eastern Europe as a proportion of the total population.

⁶ Chile, Colombia, Mexico, and Peru are members of the Pacific Alliance, a regional integration scheme created in 2011; all but Colombia are signatories of the Trans-Pacific Partnership (TPP).

Institutional capacity, strength, and independence vary greatly within and among the countries of the region. Deepening democracy depends on improving the capacity of the state to carry out and deliver on its basic functions, and on improving the capacity of autonomous civil society, including the press, to hold leaders accountable.

The Policy Challenges Looking Ahead

U.S. relations with the hemisphere have improved significantly over the last year with the normalization of U.S.-Cuban relations, which removed an irritant that most Latin American countries viewed as an outdated relic of the Cold War. This was seen most dramatically at the April 2015 Summit of the Americas in Panama, a meeting that many heads of state, including those friendly to the United States, had threatened to boycott if Cuba were not included. The Obama administration's commitment to working multilaterally on a range of issues, from protecting the environment to promoting Venezuelan democracy, has also been viewed favorably. According to the Latin American Public Opinion Project (LAPOP), 51 percent of citizens in 19 countries of the region believe that the United States is the most influential country in the region. The comparable figure for China, which has become the principal trading partner for several major countries and has provided billions of dollars in loans, is 12 percent.⁷ Moreover, a recent study of anti-Americanism in Latin America shows great variation in public attitudes toward the United States and demonstrates that beliefs, some of which are longstanding, can also be triggered by specific contexts such as insecurity. While remittances, for example, have a positive impact on views of the United States, insecurity arising from U.S. drug consumption and arms trafficking from the United States has a negative impact. The policy implications of these findings should be obvious.⁸

In the coming months and years, several issues deserve priority attention.

Relations with Colombia

Colombia has been a close U.S. ally over the last decade and a half and is now a strategic partner in ways that include providing third-country security assistance, in tandem with the United States and on its own. The government of President Juan Manuel Santos has been engaged in peace talks with the Revolutionary Armed Forces of Colombia (FARC) since 2012; following the achievement of a breakthrough agreement on transitional justice last September, the government and the FARC announced a March 23, 2016, deadline for concluding the peace talks. Many complicated issues remain, including ironing out the final details of the justice accord and

⁷ Data is from the Americas Barometer, LAPOP, 2014.

⁸ Dinorah Azpuru and Dexter Boniface, "Individual Level Determinants of Anti-Americanism in Contemporary Latin America," *Latin America Research Review*, Vol. 50, No. 3, 2015, 111-34.

determining the conditions for FARC demobilization and disarmament. But reaching a final agreement—to be ratified in a popular referendum—appears likely. The United States has been generous in providing assistance to Colombia, over \$9 billion since 2000. It would be a grave mistake to fail to invest as generously in the peace as the United States has in pursuing security and counter-narcotics goals. This failure marked U.S. policy toward Central America following the end of the wars there, with major consequences for the region and for U.S. policy. Especially if oil revenues remain low, Colombia will need the support of the international community to implement the peace accord and continue fulfilling the Santos government’s historic commitments to land restitution and compensation to victims. Once the FARC has demobilized and transformed itself into a political actor under Colombian law, it would be appropriate to review the FARC’s designation as a terrorist organization.

Fighting Crime, Violence, and Organized Crime

Latin America continues to suffer the highest rates of homicide in the world. While there are great variations among countries, rates of property crime, kidnapping, assault, and gender-based violence remain unacceptably high and fuel public demands for authoritarian measures that typically worsen levels of insecurity over the long run. Violence is especially acute along narcotics and human trafficking corridors and where different groups vie for control of lucrative stages of illegal economies. Mexico and Central America, given their geographical proximity to the United States, have been especially hard-hit. U.S. security cooperation, which for years sought direct confrontation with drug cartels and cartel leaders in order to disrupt the flow of illegal drugs into the United States, has evolved towards an effort to reform the institutions of law and order, protect citizens at a local level, and couple law enforcement with prevention programs in the same localities. These efforts have met with some limited success, but only when local leadership—political, civic, and private sector—comes together around an agenda of institutional reform, accountability, and the creation of greater economic opportunity. Combatting corruption is a long-term effort with no simple solution. The United States played a key role in Guatemala through its support of CICIG and Guatemala’s rule of law institutions. Elsewhere in the Northern Triangle of Central America, further support for rule of law and economic opportunity is critical if the conditions that push migrants northward are to be improved. Fostering transparency, supporting transformational leaders, investing in civil society’s capacity to hold institutions accountable, and creating more opportunities in the legal economy are important elements of any successful approach.⁹

Venezuelan Democracy

⁹ For greater detail, see Eric L. Olson, Testimony before the Senate Committee on Homeland Security and Governmental Affairs, March 25, 2015.



No country of the region faces an internal economic and governance crisis as deep as Venezuela's. The opposition victory in the Legislative Assembly elections on December 6 is a significant transformation under very adverse circumstances. It would be a mistake, however, to view the election as "the beginning of the end of *chavismo*." Chavismo as a political force will remain a factor in Venezuelan politics for the foreseeable future even if its control of the branches and institutions of government will be subject to additional and potentially successful challenges. Overcoming Venezuela's deep polarization and reversing its economic freefall will require political skill, compromise, dialogue, and patience.

U.S. policy until now has focused on working for the release of political prisoners, including Leopoldo López, recently condemned to almost 14 years in prison, as well as other opposition and student leaders. The Obama administration has worked with others in the hemisphere to attempt to preserve the space for elections and avoid the potential for fraud. Unilaterally, the United States has pursued criminal cases against Venezuelans involved in drug trafficking, as witnessed in the recent arrests of two nephews of President Nicolás Maduro. And in 2014, the U.S. government imposed sanctions against Venezuelan leaders involved in the crackdown against protestors early in the year. The substance of those sanctions was appropriate, even if the language invoked—designating Venezuela a national security threat to the United States—was unfortunate, counterproductive, and widely condemned by allies in the hemisphere.

High-level but discreet U.S. engagement on Venezuela will continue to be essential as the next chapters of the country's history unfold. Important new allies in the hemisphere—from OAS Secretary General Luis Almagro to President-elect Macri of Argentina—have demonstrated that they will take a leading role in pushing for greater respect for human rights and democratic freedoms. The U.S. administration and Congress should speak out publicly on important matters of principle, but be mindful that the current Venezuelan government thrives on confrontation and has used accusations of foreign "interference" to its own political advantage.

There are many additional issues to address—from immigration to trade to counter-narcotics policy. I welcome your questions and thank you again for the opportunity to share my views with the Subcommittee.