



Statement before the House Committee on Foreign Affairs
Subcommittee on the Western Hemisphere
Year in Review: U.S. Policy Toward a Changing Western Hemisphere

The Americas: *Reviewing 2015 and Looking Ahead*

Ambassador Roger F. Noriega
Visiting Fellow
American Enterprise Institute

December 9, 2015

The American Enterprise Institute for Public Policy Research (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.

Mr. Chairman, this past year has been eventful in key countries in the Americas, with several dramatic examples of the challenges we must confront as neighbors. Those who make, implement, and oversee U.S. foreign policy have a significant opportunity to recapture the initiative where our key priorities are at stake: the defense and promotion of democracy, security, and prosperity.

KEY POINTS

In the last 15 years, representative democracy in many countries has been undermined by authoritarian populism, statist economic policies, and unsustainable social spending—all of which gives government such an overbearing role in national economies that it spurs flagrant corruption. In some very dramatic cases in the last year, the people have sought remedies through democratic debate and elections.

For example, in Argentina, after 15 years, a majority of voters rejected the statist and authoritarian policies of Kirchners. Even within the Peronist movement, many preferred a change of course. As a result, the free-market-friendly candidate, Mauricio Macri, was elected to a four-year term that begins tomorrow—pledging to lift currency restrictions and price controls; to dismantle counterproductive taxes on agricultural goods; to settle with bond holdouts as a step toward restoring Argentina's creditworthiness; to confront Venezuela's anti-democratic regime; and to pursue positive relations with the United States.

Macri will have to cope with a vigorous opposition, but if he can deliver on key points in his ambitious agenda, his election represents an opportunity to demonstrate the effectiveness of free-market remedies in right-sizing government and jumpstarting stagnant economies.

In Brazil, the decision last week to impeach Dilma Rousseff reflects the anxiety that permeates South America's most populous country and largest economy. I believe this crisis can be traced to anxious expectations among millions of Brazilians who pulled themselves out of poverty and are now demanding a clean and responsive government to which they are entitled.

Far from improving this quality of life by integrated development strategies to ensure sustainable growth and create good jobs, politicians squandered oil wealth for their personal and political gain. Rather than make the country more competitive by adopting a host of economic reforms, policy makers let Brazil become overly dependent on the commodities boom and Chinese demand. Even as President Rousseff was reelected just over a year ago, the polls revealed public dissatisfaction with her policies across the board and the first details of the so-called Petrobras scandal began to emerge. When the recession came, Rousseff and her ruling Workers' Party were less able to fend off mounting corruption charges and impeachment.

The congressional impeachment process will come down a vote-counting exercise. However, parallel corruption investigations are being led Brazil's fiercely independent prosecutors and judges. This political crisis is not good for Brazil and its people. However, the fact that it is confronting these challenges by relying on the rule of law and checks and balances shows that—when it comes to answering to the popular will—constitutions are more reliable than *caudillos*.

In Guatemala, a political neophyte, Jimmy Morales, was elected president in October with two-thirds of the popular vote. His election came after months of peaceful popular protests that forced president Otto Pérez Molina (as well as his vice president) to resign in the face of corruption charges.

In Venezuela, people voted in overwhelming numbers—with a nearly 75 percent participation rate—to give the democratic opposition a landslide victory and control of the National Assembly beginning next January. Although President Nicolás Maduro has publicly accepted the popular will, his recent statements and past behavior of the ruling leftist party suggest that Maduro will resort to any means necessary to deny the opposition its rightful authority to serve as a check and counterbalance to the current criminal regime. It is more important than ever that the international community—particularly the Organization of American States, the United States, and other democratic governments—remains vigilant to undemocratic manipulation and outright repression.

In each of these cases—functioning democratic institutions, an independent media, civil society, peaceful protests, the rule of law, or free and fair elections—played a constructive role. In the case of Venezuela in particular, however, the jury is still out—in light of the regime's long history of authoritarian practices and deep-seated corruption.

One of the growing threats to U.S. security in the Americas is the breakdown of regional consensus on confronting illegal drugs and transnational organized crime. In the last 15 years, key drug-producing and -transit countries—among them Bolivia, Ecuador, Bolivia, and Venezuela—have effectively ended their cooperation with U.S. anti-drug efforts.

In recent years, El Salvador, Guatemala, and Honduras, because of weak or corrupt institutions, have become part of the problem. And in 2015, Colombia, a country that once was a bulwark in our counternarcotics strategy, ended its extradition of cocaine kingpins and restricted its aerial spraying of illicit coca—despite a 40 percent increase in coca cultivation the year before.

In the face of this crumbling regional consensus to confront drugs and organized crime, U.S. foreign policy makers have failed to respond effectively, leaving us more vulnerable to the onslaught of illegal drugs than we have been in decades. A narcostate has been consolidated in Venezuela. Mexican drug trafficking networks are the biggest organized crime threat within our country. Ultraviolent

Central American street gangs are vertically integrated into every major American city. And, transnational organized crime networks stretch across continents and can traffic drugs, illegal weapons, and people (including terrorists) into our homeland.

With respect to the region's economy, statist policies; profligate spending; lack of competitiveness reforms; loss of private sector investment; and overdependence on commodity exports have sent several economies into recession. The downward spiral in the prices of oil and natural gas, minerals, basic grains, and other raw materials—caused mostly by slumping Chinese demand—has undermined the region's major economies. It's said, "When the tide goes out you find out who's swimming naked." Others have noted that populism runs out of steam when governments run out of other peoples' money.

The lesson we have been taught yet again in 2015 is that there is no substitute for leaders summoning the political courage to adopt internal reforms. Commodity booms, natural resource wealth, foreign trade, and capital can sustain growth only when coupled with responsible economic policies.

With respect to Cuba, none of our pressing policy priorities in the region—democracy, security, and free-market prosperity—are consistent with the U.S. capitulation to the Cuban dictatorship. Arguably, things have gotten worse in Cuba since President Obama normalized ties with the Castro regime. Repression continues unabated, Cuban purchases of U.S. goods have gone down in the last year, and Administration officials have made it clear that additional concessions are not linked to progress on human rights.

I. DEMOCRACY

In the last year, events in Argentina, Brazil, Guatemala, and Venezuela have provided dramatic evidence that the institutions of representative democracy represent the best tools for resolving issues of political polarization and public dissatisfaction. In Haiti, the political establishment can consolidate democracy with the successful conclusion of presidential elections. And, in Central America, the weakness in democratic institutions and the rule of law have contributed to economic woes, crime, and instability that generated a crisis on our southwest border.

Just last Sunday, Venezuela's democratic opposition (*Mesa de la Unidad Democrática*, MUD) won a landslide victory against the ruling Socialist Party (PSUV) Sunday's National Assembly elections. Electoral authorities announced just after midnight that the MUD had won 99 of 167 assembly seats, compared to 46 for the PSUV; the remaining 22 seats were too close to call, despite the fact that 96 percent of the votes had been counted. The MUD needs to win 111 votes to attain a supermajority required to challenge executive authority and take the initiative on constitutional questions.

Immediately after the results were announced, President Nicolás Maduro made a televised address to “accept the adverse results and to say that our constitution and democracy have triumphed.” “We grasp this as a slap in the face as we take action for the future,” Maduro admitted. However, referring to his repeated denunciation of an “economic war” being waged by the private sector, Maduro said, “The opposition hasn’t triumphed; the counterrevolution has triumphed circumstantially, because of its [economic] war.”

Several hours before officials announced the preliminary results, the MUD claimed through social media that it had won at least 113 seats—which would give the opposition bloc a two-thirds supermajority required to submit draft laws to a referendum, adopt constitutional amendments, name key officials (controller general, attorney general, and public ombudsman), remove supreme court justices, and convene a constituent assembly. With a 100-seat majority in the assembly session, which begins in January, the opposition would be able to interpolate and censure the vice president and ministers, name members to the electoral council, approve a referendum revoking the president’s term, authorize charges against the president and public officials, approve or reject states of exception, and censure the vice president and ministers.

The new assembly session in January will mark the first time in 16 years that the PSUV, which was founded by leftist strong man Hugo Chávez, has not controlled Venezuela’s congress. When the PSUV lost control of key public offices in the past, the government moved to strip elected opposition officials of power and resources.

Maduro’s somewhat contrite concession statement was in stark contrast to his campaign pledge to take to the streets to defend the Bolivarian revolution. According to unconfirmed reports from my sources in Venezuela, some military leaders weighed in with the electoral council and Maduro to insist that the PSUV authorities accept defeat. It remains to be seen whether the government will concede a supermajority; if electoral authorities fail to recognize that the MUD achieved that threshold, the opposition can be expected to force a confrontation over the results.

The opposition will have to tread lightly as it takes control of the legislative branch of government. The PSUV can be expected to rally its base to confront any significant initiatives that it perceives as challenging its executive authority or populist programs. For example, although the assembly can authorize a popular referendum to revoke Maduro’s presidency midway through his six-year term, such a move would be met with fierce opposition.

The MUD leadership may choose a more incremental legislative program, starting with an amnesty for political prisoners, notably Leopoldo López. López has become an international symbol for the democratic opposition and, upon his release, could become its leader and chief rival to Maduro.

Perhaps the biggest loser in yesterday's election was Diosdado Cabello, the president of the National Assembly who, according to published reports, is being investigated by U.S. prosecutors for involvement in narcotrafficking, money laundering, and other acts of corruption. Cabello cannot afford to lose the immunity he receives as assembly leader and could never submit to legislative oversight of his alleged criminal network.

The electoral results could cause more than mere soul-searching within the PSUV. Cabello and other alleged criminals within the regime likely blame Maduro for his inept administration of Venezuela's collapsing economy, which apparently alienated many voters from the *chavista* base. These criminal hardliners will look to protect their interests, perhaps challenging Maduro for power and, if necessary, opting for political violence to intimidate the ascendant opposition.

In Haiti, it is vital that the United States and international community not make the mistake of merely treating the impoverished nation's symptoms, rather than challenge them to build stronger political institutions that will sustain stability and root out corruption to incentivize investment and create decent jobs. Donor nations can support Haiti's new president and parliament as they govern responsibly, but we must hold them accountable when they abuse their positions or shirk their duties.

Regarding Cuba, I believe it is critically important to do a cost-benefit analysis of the Obama Administration's dealings with the Castro regime—where I fear U.S. policy is no longer guided by what's good for the Cuban people. Instead, the Administration is determined to placate an anti-American regime that has held power by brute force for over 55 years. Since the Obama administration announced it would pursue a process of normalization a year ago, the Castro government has ramped up persecution and violence against dissidents and maintained strict controls over all economic activity.

It is instructive that, according to the Cuban Human Rights Commission, November 2015 marked one of the most repressive months in over a decade. Moreover, in the last year, Cuban purchases of U.S. goods have actually declined. The message from the regime is clear. It reserves the absolute right to abuse its people with impunity, and, contrary to reciprocating for the concessions that President Obama already has made, the regime will always demand more.

The President blames U.S. policy for Cuba's problems. Anyone who knows or cares about Cuba draws a different lesson, noting that despite being able to trade with every country in the world, the Cuban economy has collapsed. Despite Soviet Union largesse, European investment, Canadian tourist dollars, and Venezuelan oil riches, the Cuban government is bankrupt. Despite the trend toward democracy of the last three decades, Cuba remains a totalitarian dictatorship. Despite being a tropical island, Cuba has shortages of citrus and seafood.

Reasonable terms for normalizing economic relations with a post-Castro Cuba were approved by three-fourths majorities in both houses of Congress and signed by President Clinton. The awful reality is that Cuba is the only country in the Western Hemisphere that cannot meet any of the human rights, labor rights, or democracy conditions contemplated in the *Libertad* Act.

II. SECURITY

Poverty and insecurity in some countries in Latin America and the Caribbean result primarily from the lack of strong, accountable institutions that can foster economic development and provide for public security. Weak institutions also breed public corruption and lawlessness—which discourage investment and economic growth. The region’s poorest countries are caught in this vicious, self-destructive cycle.

General John F. Kelly (USMC), outgoing chief of Southern Command, was one of the few in government who spoke openly of how organized crime takes advantage of institutional weakness to threaten regional security, which he described in his 2013 “Posture Statement” before the U.S. Congress:

“Picture an interconnected system of arteries that traverse the entire Western Hemisphere, stretching across the Atlantic and Pacific, through the Caribbean, and up and down North, South, and Central America. Complex, sophisticated networks use this vast system of illicit pathways to move tons of drugs, thousands of people, and countless weapons into and out of the United States, Europe, and Africa with an efficiency, payload, and gross profit any global transportation company would envy.

“In return, billions of dollars flood back into the hands of these criminal enterprises, enabling the purchase of military-grade weapons, ammunition, and state-of-the-art technology to counter law enforcement. This profit also allows these groups to buy the support or silence of local communities through which these arteries flourish, spreading corruption and fear and undermining support for legitimate governments.

“These networks conduct assassinations, executions, and massacres, and with their enormous revenues and advanced weaponry, they can outspend and outgun many governments. Some groups have similar and in some cases, superior training to regional law enforcement units. Through intimidation and sheer force, these criminal organizations virtually control some areas.”

The reach and impact of organized crime in the Americas has grown more profound in recent decades, as criminal organizations have adopted the practices and technology of a globalized economy to build transnational networks. In Latin America, antidrug cooperation—characterized by the promising progress of the US-backed security and development strategy known as “Plan Colombia”—has been dismantled in the last decade. A cadre of anti-U.S. regimes, inspired and financed by the late Venezuelan leader Hugo Chávez, has effectively ended cooperation with U.S.

antidrug efforts. In some cases, these governments now aid, abet, or engage in narco-trafficking.

Just as antidrug cooperation is being undermined, criminal networks have grown stronger. Today, they are able to organize complicated conspiracies involving drug acquisition from suppliers in Colombia, transportation with the complicity of security officials in Venezuela, transit across porous borders in Central America, marketing and smuggling by criminals in Mexico, and money laundering in banks around the world. Terrorist groups such as the Colombian guerrillas and Hezbollah are profiting from many of these transactions.

U.S. foreign policy in the Americas appears to be overwhelmed by the network of lawless states. Although the Venezuelan regime's complicity in narcotics trafficking has been rumored for years, the depth and breadth of that government's lawlessness was revealed by the Wall Street Journal in a May 2015 article regarding ongoing U.S. federal investigations into several high-ranking Venezuelan officials' involvement in cocaine smuggling.

"A leading target, according to a Justice Department official and other American authorities, is National Assembly President Diosdado Cabello, considered the country's second most-powerful man," the article reported. "There is extensive evidence to justify that he [Cabello] is one of the heads, if not the head, of the cartel," said the Justice Department source, referring to an alleged conspiracy involving military officers and other senior officials.

Inexplicably, U.S. policymakers appear to be purposely pulling their punches against the Venezuelan narcostate, under the delusion that a strategy of accommodation will either placate the regime or forestall its inevitable implosion. Although U.S. law enforcement and agencies and prosecutors are trying to confront this dangerous security threat, U.S. diplomats apparently are not taking these investigations seriously. For example, the meeting in June between senior State Department official Thomas Shannon and alleged Venezuelan drug kingpin, National Assembly president Diosdado Cabello, sent a devastating signal that the United States is turning a blind eye to the regime's criminality.

This phenomenon became more difficult to ignore with the November arrest and indictment of two nephews of President Maduro—Franqui Francisco Flores de Freitas and Efrain Antonio Campo Flores—on charges of conspiring to smuggle 800 kilograms of cocaine into the United States. According to sources close to the investigation, the two men, who were traveling on Venezuelan diplomatic passports, implicated both Cabello and Aragua state governor Tarek El Aissami in the smuggling plot. Other published reports last month claim that other Maduro relatives have used corporate jets belonging to the state-run oil company *Petroleos de Venezuela* in their illegal drug smuggling operations.

The deadly terrorist attacks in San Bernardino, California, and in Paris underscore the importance of neighboring governments to U.S. security and cast a troubling light on the hostile activities of the regime in Venezuela. In the last several weeks, border officials in several countries have detected the movement of Syrian nationals with false or stolen documents bound for the United States, transiting (or trying to enter) Honduras, Paraguay, and St. Maarten. Officials have said that these people are not suspected of being terrorists but planned to seek refuge by entering the United States illegally; according to published reports, they received their fake passports from a smuggling ring in Brazil. In a separate case, a Syrian woman being sought for possible ties to the Paris attacks, Al Sakhadi Seham, apparently lived for six months in Ecuador before traveling to Europe through Colombia.

The United States must be able to count on other countries in the Americas to be vigilant to detect and interdict suspected terrorists before they cross into our territory. Securing our border to keep us safe is our Federal government's primary responsibility. Clearly, Canada and Mexico are linchpins, because of our shared land border; and our shared maritime border with several Caribbean states must not be neglected. Although our cooperation with Canada could not be much closer, some of the historic mutual suspicions between U.S. and Mexican law enforcement and intelligence agencies have returned since the change in government in Mexico in 2012. That said, Mexican authorities are extraordinarily sensitive to any terrorist activities in their territory, lest these present a threat to their relations with the United States.

With respect to international terrorism, our biggest vulnerability emanates from Venezuela and other hostile states that support Syria's Assad regime and provide resources, recruits, and safe haven to Hezbollah and Iranian operatives. These groups have vowed publicly to carry their asymmetrical war to our shores. For more than 15 years, according to numerous published reports, Venezuelan authorities have manufactured thousands of valid documents to persons of Middle Eastern origin. According to eyewitnesses, a Hezbollah operative operating as a Venezuelan "diplomat" in Damascus for years arranged visas for Hezbollah operatives to travel to this Hemisphere.

An Iranian cleric indicted for two devastating bombings in Buenos Aires travels illegally on Venezuelan documents to tend to his network of operatives throughout the Americas. (The murder in March of Alberto Nisman, the Argentine prosecutor who accused President Christina Kirchner and others of conspiring with the Iranian regime to obstruct his investigation of these bombings, is dramatic evidence that this terror threat has not subsided.)

For these reasons, it is significant that, in September, Venezuelan President Maduro said his government would admit 20,000 Syrian refugees—people who are said to be fleeing the Assad regime that Venezuela supports.

Another development in the region that gained significance this year and that will have an impact on U.S. security is the breakthrough in the Colombian peace talks. Hoping to end the 50-year armed conflict in Colombia that has claimed more than 220,000 lives, President Juan Manuel Santos in 2012 launched negotiations with the armed guerrilla group known as the Revolutionary Armed Forces of Colombia (FARC). In late September, the two sides agreed on a framework for bringing guerrillas and soldiers to justice for crimes and set March 23rd, 2016 as the deadline for signing a final agreement.

As difficult as the peace negotiations with the FARC have been for Colombia, the post-agreement period will provide even more challenges. If an agreement is reached, Colombia will have to absorb thousands of FARC guerrillas, most of whom have little or no education or work experience. The government will also have to expand its presence to provide services, develop and stabilize parts of Colombia that have been deeply affected by the conflict.

There is also the challenge of dealing with those in the FARC that refuse to end their lucrative involvement in cocaine trade—which garners an estimated \$600 million annually—to submit to prosecution and punishment. As with past agreements, the government will be hard-pressed to punish guerrilla leaders who commit new abuses by continuing their criminal enterprises. Enforcing the accords so they work for the majority of Colombians will require the kind of hard-nosed approach that is not typical of Santos. If the FARC commanders continue to enrich themselves with narco-dollars, they will have the means to buy the political influence they could not win on the battlefield. As their influence undermines Colombia's political institutions and the rule of law, the expected peace dividend in the form of economic growth and foreign investment may fail to materialize. Instead, the country's commerce and industry could be squeezed out by a powerful underground economy that writes its own rules.

In November, data collected by the United Nations revealed that Colombia reclaimed the unfortunate distinction of being the world's largest producer of cocaine, with a 50+ percent increase in coca production 2014. For that reason, it is very significant that the Santos government decided to end its highly effective aerial spraying of illicit coca crops in a concession to the FARC. In another concession, Santos has suspended the extradition to the United States of FARC kingpins wanted on drug trafficking; for the first time ever, earlier this month, Colombia refused to extradite Juan Vicente Carvajal, indicted in 2013 in New York for drug smuggling.

These developments beg the question of whether Colombia is letting down its guard again. Few begrudge war-weary Colombians the opportunity to end a long, violent chapter in their history. However, their U.S. allies have apparently failed to warn against trading prosperity and security for an unsustainable truce with criminals. Past generations of Colombians have made that mistake and paid the price.

No event in recent years has underscored the vulnerability of the United States' southwest border as dramatically as the wave of illegal immigrants—many of them children—crossing our border illegally in recent years; 75 percent of these UACs are citizens of El Salvador, Guatemala, and Honduras—a dramatic change from past years, when 80 percent were of Mexican origin. This heart-wrenching flood of humanity demonstrated how quickly our resources on the border can be overwhelmed, creating a diversion of resources that could allow greater threats to evade detection.

Criminality is at the heart of this border crisis and the festering problems in Central America. Salvador Sánchez Cerén of the *Frente Farabundo Martí para la Liberación Nacional* (FMLN) became president of El Salvador in June 2014. Sánchez Cerén and his party have a long history of solidarity and support for the Colombian FARC. The FMLN also has periodically entered into suspicious truces with ultraviolent street gangs, including “*Mara Salvatrucha*” and “*Barrio 18*,” that are vertically integrated into every major U.S. city.

José Luis Merino, another former FMLN guerrilla whose criminal activities were exposed in captured FARC computers, is known as the FARC's man in El Salvador; he has played a central role in using a Venezuelan aid program known as “*Alba Petróleos*” to launder money for the FARC and other criminal and terrorist organizations. Although the Obama Administration requested \$1 billion to support these Central American states, no significant progress can be made until the executive branch deals effectively with the underlying official corruption—beginning with effective law enforcement measures targeting Merino and his co-conspirators.

III. PROSPERITY

The economic benefits of free trade among nations are very clear. Just within the Western Hemisphere, freer trade and free market policies have helped pull 70 million people out of poverty and expanded the middle-class by 50 percent. However, it is clearer than ever that there is no substitute for national policies that promote free market growth and extend economic opportunity to people from all walks of life.

Recent data from this Hemisphere suggest that economies are losing momentum. According to the Economic Commission for Latin America and the Caribbean (ECLAC) in 2015, the South American economy will *contract* by 0.4 per cent. Setting aside the impending collapse in Venezuela, economic growth has slowed in the giant economies of Brazil (which will shrink by nearly 3 percent) and Mexico (whose 2.4 percent growth is half what it was just 5 years ago). All of the Andean states, plus Chile, have slowed down appreciably in the last 18 months, with Ecuador slipping into a recession this year. In Central America, the economies of El Salvador, Guatemala, and Honduras are foundering.

Of course, much of this bad economic news can be attributed to the steep decline in Chinese demand for commodities and the accompanying precipitous drop in oil prices. However, the over-dependence of Latin America on commodities prices underscores the deeper cause of the economic downturn: the failure of regional policy makers to modernize their economies to make them more competitive *and less dependent on China demand*.

Trade policy makers in Washington already are saying that the Trans Pacific Partnership will be the last such initiative for years to come. Instead, they urge national leaders to focus their energy on retooling their economies to make them more competitive and efficient.

Nine short years ago, we adopted the Central American Free Trade Agreement (CAFTA) to secure market access and fuel long-term economic growth. Unfortunately, transnational organized crime has helped undermine these plans—corrupting Central America’s institutions and destabilizing their economies. Honduras and El Salvador are less competitive than they were before CAFTA. Most local businesses there are struggling to survive, so few have the opportunity of tapping the potential benefits of international trade.

Mexico’s President Enrique Peña Nieto has been rightly credited by foreign observers for emphasizing economic modernization of his country—including in the energy sector. The problem is, he let down his guard to the plague of organized crime that continues to overwhelm institutions and sow corruption in many parts of the country. As a result, his central reform—allowing private involvement in the energy sector—has lost some momentum, as doing business in Mexico is as complicated as ever.

Brazil slipped into recession nearly two years ago, and it is not expected to recover for several years. Revelations about multi-billion dollar kickback scandal involving the state-owned oil company, Petrobras, are widely perceived as the proximate cause of the country’s political crisis. However, President Dilma Rousseff failing economic program is a contributing factor, as reflected by her re-election last October when she won by the smallest margin in Brazilian political history, even before the gravity of the scandal was uncovered.

Rousseff relied on unsustainable public spending—even though it meant milking Petrobras of capital that it needed for exploration, production, and profitability. Even worse, Rousseff failed to adopt badly needed reforms, including improving government efficiency and accountability; taming costly public pensions; simplifying the labyrinthine federal and state tax systems; liberalizing the labor code; removing regulatory obstacles to doing business, and attracting foreign capital and technology into the promising energy sector.

A similar situation can be seen in Ecuador, where, until recently, substantial oil revenues and favorable trade and investment with China sustained economic

growth, mitigating the impact of Correa's unsustainable welfare programs and statist policies. Today, Ecuador is heavily dependent on the sale of oil and other commodities. Primary products made up 77 percent of Ecuador's total exports in 2014, with oil alone representing 28 percent of public revenue.

The county's oil revenue is expected to decline by as much as 48 percent in 2015, dramatically affecting the government's bloated budget and the broader economy. In the face of these declines, Correa imposed strict import and banking controls and proposed new capital gains and inheritance taxes, which alienated a growing segment of the private sector.

So far in 2015, Ecuador has proposed cuts to public spending of \$2.2 billion. Ecuador's annual growth rate—which averaged 5 percent from 2010 to 2014—also has decelerated significantly, with Fitch recently revising its growth forecast for 2015 to just 0.4 percent. Financial analysts also have noted dropping consumer confidence, a 14.4 percent decline in cash deposits in the nation's banks, and doubts about Correa's ability to navigate the economic crisis.

These examples show that trade agreements and even trade itself are no substitute for *internal reforms* that protect and promote economic freedom; incentivize entrepreneurship; reduce taxes and regulation on the productive sectors of the economy; and empower job creators as well as workers. These domestic policies will help countries build more mature economies, create better jobs, increase productivity, and cultivate healthier internal markets.

So, as we ponder an economic agenda in a new year and, soon, under a new U.S. administration, there is simply no substitute for local leaders forsaking political expediency and making the hard choices to modernize their economies and strengthen their institutions. Intelligent decisions by domestic leadership will make their people more capable of taking advantage of global trade but less vulnerable to external crises.

U.S. POLICY OPTIONS

In the coming year, U.S. foreign policy makers have an opportunity to work with like-minded government to bolster a regional consensus in support of democracy and the rule of law; our common security; and shared prosperity.

We should work with fellow democrats to reenergize application of the Inter-American Democratic Charter—starting with a review of the conditions of democracy, human rights, and the separation of powers in Venezuela. The new leadership at the Organization of American States (OAS) deserves the strong backing of the United States and other democratic governments, so that the OAS can reassert its role in detecting and responding to threats to democracy and human rights.

U.S. security demands more vigorous efforts to confront transnational organized crime that is threatening our neighborhood by preying on weak states. For example, President Obama should consider designating an experienced prosecutor or law-enforcement veteran as an “international organized crime czar” to coordinate with multilateral organizations to increase the capacity of local authorities, strengthen international cooperation, and direct the application of anti-TNOC measures.

We should use all of the tools in our toolkit—including investigative cooperation, intelligence-sharing, and executive sanctions—to identify, isolate, and prosecute traffickers, money launderers, and complicit officials and businesses. The kind of sanctions used this year against the Rosenthal clan in Honduras should be applied against other dubious figures in the hemisphere such as José Luis Merino in El Salvador and Diosdado Cabello, Tarek el-Aissami, and others.

Cross-border criminals represent an asymmetrical threat to U.S. security. U.S. authorities should respond in kind, stepping up the investigation, prosecution, and administrative sanctions—particularly seizing assets and blocking access to the U.S. financial system— against TNOC kingpins so they can no longer operate with virtual impunity in Latin America.

We should work with our allies in Colombia to provide full backing for their efforts to apply the rule of law on the FARC guerrilla group that has terrorized that nation for decades and which has become the world’s biggest producer of cocaine. The Colombian government must be convinced that it can count on our support so it presses the FARC to accept and comply with a tough, verifiable agreement to bring a definitive end to the conflict and to the FARC’s criminal activities. And if the FARC fails to comply, we must be able to count on Colombia to resume the extradition of FARC criminals and the effective eradication of illicit crops.

To help put the region back on the road to prosperity, we should encourage them to adopt policies that right-size government programs, bring spending under control, incentivize private sector led growth, root out corruption, and put capital in the hands of innovative entrepreneurs. Of course, the first steps the United States must take are to demonstrate fiscal discipline, bring our debt under control, establish our energy independence, and adopt economic policies to restore robust growth, create jobs, and recover our credibility as an advocate for free market principles.

Although these goals present complex challenges, the region’s democratically elected leadership has pledged genuine change. With steadfast U.S. support, Latin American and Caribbean leaders can restore prosperity, democracy, and security for their people.

#