



# **Latin America: Progress and Peril**

**Testimony before the United States Senate Committee on Foreign Relations**

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**By Ambassador Jaime Darembaum, Senior Fellow and Director, Center for Latin American Studies, Hudson Institute**

Mr. Chairman, Senator Lugar, distinguished members of the committee: It is a great honor to be speaking before you today. I would first like to thank Senator Dodd for his many years of service, and particularly for his efforts to improve U.S. relations with the nations of Latin America, including my home country of Costa Rica. I would also like to thank Senator Lugar for his consistent efforts to defend democracy and safeguard regional security throughout the Western Hemisphere through the years, as evidenced recently by the questions submitted as part of the confirmation process of Ambassador Designate to Venezuela Larry Palmer.

Our topic is the current state of Latin America, a region that is often neglected in U.S. foreign-policy debates but is vitally important to U.S. interests. As we survey the political and economic landscape, we find many encouraging signs. Democracy has become firmly entrenched in most countries, and the successful resolution of the 2009 Honduran crisis showed that even small, poor democracies have the institutional strength to withstand autocratic challenges. After decades of boom-and-bust volatility, Latin American economies finally seem to be moving toward a trajectory of stable growth. They have generally become more resilient, as was evidenced during the recent global recession.

On the other hand, some economies have been weakened by radical populism, which has taken root in Venezuela, Bolivia, Ecuador, and Nicaragua. In Venezuela, the Chávez regime has formed a strategic alliance with the world's leading state sponsor of terrorism (Iran) and has aided multiple terrorist groups, including the Colombian FARC, the Spanish ETA, and the Iranian-backed Hezbollah. In Nicaragua, Sandinista leader Daniel Ortega has returned to his old ways, and he is gradually eroding constitutional checks and balances. With the world distracted by other news, Nicaraguan armed forces recently invaded the sovereign territory of Costa Rica, a country that has no military. As we meet here today, Nicaraguan troops continue to occupy a Costa Rican river island, despite an OAS resolution calling for them to leave the area.

In short, Latin America offers much to make us cheer and much to make us worry. I will discuss the positive developments first, before turning to the negative.

Smart economic management and increased foreign trade have helped many countries become better prepared to weather global financial storms. Fiscal deficits have fallen, tariffs have been slashed dramatically, and the non-tariff barriers to trade have been reduced even more. Prior to the 2008 global crisis, Latin America was experiencing its best economic performance in a quarter-century, which was fueling the growth of a broad middle class. According to the *Economist* magazine, some 15 million households emerged from poverty between 2002 and 2007. It is not unrealistic to expect that a majority of the region's population will soon belong to the middle class.

In short, Latin America is on the right economic path—but we shouldn't celebrate just yet. A good part of its pre-2008 economic growth stemmed from favorable external factors, such as high commodity prices and low interest rates. It is worrisome that, with only a few exceptions, Latin American governments did not take advantage of the commodity boom to push for labor and tax reforms that would have made their economies more competitive.

During the pre-2008 expansion, Latin America's growth rates were relatively high, but they were still below those in Asia. Latin America has also trailed Asia in poverty reduction, and its levels of income inequality continue to be the steepest in the world, largely because of its education deficit. Indeed, Latin America is lagging in both the competitiveness of its universities and the number of its students who attend the world's best schools. Last year, the *Times* of London published a ranking of the top 200 global universities. Only one Latin American university—the National Autonomous University of Mexico—made the list, and it ranked 190th. Similarly, the number of Latin American students attending U.S. universities is relatively low. And while Asian universities emphasize engineering and the hard sciences, Latin American universities tend to focus more on the social sciences. Diversity of knowledge is to be welcomed, of course, but information technology is the industry with the largest worldwide growth potential. And according to a recent report, Latin America will experience a shortage of 126,000 computer engineers this year.

Education is clearly one of the region's major long-term socioeconomic challenges. Its short-term security challenges include the drug war, attacks on democracy, and the growing influence of Iran. Narco-trafficking has brought terrible bloodshed to Mexico and could destabilize small countries in Central America and the Caribbean. Populist governments in Venezuela, Nicaragua, and elsewhere have undermined democratic institutions, scared away foreign investors, and menaced their neighbors. Russia has sold billions of dollars' worth of arms to Venezuelan strongman Hugo Chávez, thereby threatening to unleash a regional arms race. Meanwhile, Chávez has enabled Iran to greatly expand its strategic footprint in Latin America, and his government has also assisted the Iranian-sponsored terrorist organization Hezbollah.

I believe the Venezuela-Iran alliance represents the biggest threat to hemispheric stability since the Cold War. Their close financial cooperation is especially disturbing. Iran's Banco Internacional de Desarrollo is now operating in Caracas, despite being sanctioned by the U.S. Treasury Department for its links to the Iranian military. Speaking to the Brookings Institution in 2009, former New York City district attorney Robert Morgenthau warned that “a foothold into the Venezuelan banking system is a perfect ‘sanctions-busting’ method” for Tehran.

As for military collaboration, Russian media recently reported that the Kremlin might sell its S-300 air-defense systems to Venezuela instead of Iran, due to international sanctions against the Islamic Republic. The fear is that Chávez would then sell those weapons to

Tehran. Venezuela is working to create its own version of the Iranian Revolutionary Guards, and last week Chávez claimed to have secured a \$4 billion credit line to buy even more Russian weapons after those bought during his October shopping trip to Moscow. But are all those Russian arms solely for the Venezuelan armed forces, or the pro-Chávez militias? Or is Venezuela planning to funnel at least some of the weapons to its allies in Tehran?

It is no longer possible to deny that Chávez poses a serious threat to U.S. security interests in Latin America. A 2009 Government Accountability Office report confirmed that the amount of cocaine transiting through Venezuela has increased “significantly.” That is alarming but not surprising, given the extent to which the Chávez regime has supported and sheltered Colombian narco-terrorists belonging to the FARC. Just a few weeks ago, Chávez promoted Venezuelan military officer Henry Rangel Silva to the rank of “General in Chief,” even though the U.S. Treasury Department has accused Rangel Silva of aiding the FARC.

Finally, a word about Cuba. In September, Communist officials announced that they would be laying off nearly 500,000 state workers. Weakened by a severe economic crisis, the Castro regime is taking small steps to expand private enterprise. It has also agreed to release political prisoners in hopes of convincing the European Union to normalize relations.

Julio César Gálvez, one of the liberated prisoners now living in Spain, told the Associated Press, “Our departure (from Cuba) should not be seen as a gesture of goodwill but rather as a desperate measure by a regime urgently seeking to gain any kind of credit.” The Castro brothers know that the Cuban economy is in dire condition, and they know that Washington could throw their government a lifeline if it were to eliminate the U.S. travel ban. Congress is currently debating legislation that would scrap travel restrictions and provide Havana with a massive infusion of hard currency.

Yet, as the *Washington Post* argued in a recent editorial, “Fundamental changes of U.S. policy toward Cuba should await fundamental reforms by the regime. When average Cubans are allowed the right to free speech and free assembly, along with that to cut hair and trim palm trees, it will be time for American tourists and business executives to return to the island.”

That sounds like the correct strategy to me, but I look forward to discussing this issue (among many others) with the committee.

Thank you.