Latin America’s Political Pendulum
Part 2
April 6, 2017
Review

Demographics
Crime and poverty
Education
Religion
Emerging middle class
Demographic Dividend

Figure 11: Latin America: Period and Stages of Demographic Dividend
Review

History

Hierarchical authoritarian rule not democracy
Pink Tide and the political pendulum
Review
The Economic Boom

2003 – 2013 Unprecedented economic growth in South America

- Economies grew by 3.6% annually
- GDP per capital rose by 2.4%
- Poverty rate fell from over 40% to 25%
- Extreme poverty fell from nearly 25% to 12%
Review
The Economic Downturn

Since 2014 economic growth has been lower than the world average.

Poverty has increased and recent social progress programs are weakening.
The Problem

Latin America has a large number of poor and an emerging middle class that demand social reforms.

Latin American nations need to improve certain structural weaknesses in government and their economies.

A balance is needed between economic demands of a nation and the social demands of the people.
Today’s Topics

Populism in Latin America
Today’s Topic

How can Latin America avoid large swings in their economic boom and bust cycles?
Today’s Topics

Economic Freedom in Latin America

Structural Weaknesses in Latin America
Today’s Topics

Great Decisions DVD
Latin America

Key Issues in Foreign Policy
Latin America’s Populist Hangover

By Shannon K. O’Neil

November/December 2016
“Today, however, even as populists are surging throughout the rest of the world, such voices have fallen conspicuously silent in Latin America.”

“The region’s grandiose strongmen, with their cults of personality, have largely faded away.”
Populism is bad for all countries as shown by the Latin American experience with it.

“But Latin America’s experience also demonstrates that democratic decline is not inevitable. .. “
Latin America’s Populist Hangover

Latin American leaders repeatedly harnessed the power of the masses railing against the establishment and promising a more prosperous future.

Many of these leaders are populists
Latin America’s Populist Hangover

Although a common term, populism is difficult to define, but has fundamental attributes:

- An appeal to the excluded
- Claim to represent a neglected majority in a battle against an undeserving, yet powerful minority
- Divisive: us against them
Latin America’s Populist Hangover

Populist leaders are just as likely to come from an elite as the lower classes.

They build mass movements to increase their personal power not to truly change the system.
Latin America’s Populist Hangover

Populist leaders see themselves as sole arbiters of right and wrong.

Encourage followers to distrust and oppose anything connected with the old establishment.
Latin America’s Populist Hangover

Leaders concentrate power in their immediate circle.

Claim to increase civic participation but in reality weaken and undermine checks and balances.
Latin America’s Populist Hangover

“. . . populists create new social programs, ramp up spending, and take control of parts of the economy. . .

Resulting in short-term economic booms...

but the result is government largeness, debts build, inflation spirals, businesses scale back operations, and economic crisis ensue.”

This narrative has played out in many Latin American Countries.
Latin America’s Populist Hangover  Venezuela

The populist surge began two decades ago in Latin America.

1998 Hugo Chavez won the presidency in Venezuela Promised to abolish poverty and create democracy
Latin America’s Populist Hangover

He created numerous social programs
massive subsidies for housing and food
free medical clinics for the poor
Latin America’s Populist Hangover  Venezuela

He took land from the wealthy and gave it to the poor

Nationalized sectors of the economy

Took control of the state oil company
Latin America’s Populist Hangover  Venezuela

He rewrote the constitution to strengthen his power
Politicized the state bureaucracy
Packed the Supreme Court with loyalists
Eviscerated the free press
Revoked TV and radio licenses
Venezuela After Chavez

- Chavez selected Maduro as his successor.
  - Former bus driver and union leader.
- Lacks Chavez’ charisma
- Facing:
  - Political opposition
  - Rising crime
  - Food shortages
  - Economic collapse
  - Social discontent

Empty supermarket shelves in Caracas

Nicolás Maduro

Great Decisions
Col. Ian Lyles
“Latin America’s Political Pendulum”
March 17, 2017
THE UNITED STATES ARMY WAR COLLEGE
2003 Nestor Kirchner came to power in Argentina amid rage at the debt crisis. Supporters chanted “Throw them out”
The Kirchners ruled Argentina for 12 years. They and presented themselves as foes of previous political generations, the military and “international imperialist forces”
The Kirchners increased their power by fomenting antiestablishment attacks on companies and the elites.

They bypassed the Argentine Congress with decrees.

Tried to silence critics with legislation designed to split the country’s largest media conglomerate.
The Kirchner’s took advantage of the economic boom

- Increased the minimum wage
- Increased public pensions and expanded welfare
- Tripled the public payroll

Huge fiscal deficits, rampant inflation pushed the economy into a recession by 2015
Latin America’s Populist Hangover

In Peru, during the 90s, President Alberto Fujimori cultivated a cult following. His populism flourished without social spending. He implemented pro market neoliberal reforms.

He is credited by many for bringing stability to the country.

He led a self coup, shut down Congress, suspended the constitution, and purged the judiciary.
Latin America’s Populist Hangover

In 2000 he ended his presidency by fleeing Peru for Japan amid a major scandal involving corruption and human rights violations.

In 2009 he was extradited from Chile while on a visit, tried on murder and corruption charges, was convicted and sentenced to 25 years in prison.
Latin America’s Populist Hangover

“As Latin America has shown, populism limits long-term economic growth. “

“Unpredictable policymaking leads to repeated crisis . . . which in turn reduce spending on infrastructure, education and health care- the building blocks of prosperity.”
Will populism return to Latin America?

Lessons learned
Transparency in government
70 million people have joined the middle class
Political corruption
Economic Freedom: The Only Way for Latin America to Escape Its Slow-Growth Path

December 2016

James Roberts
Research Fellow For Economic Freedom and Growth
Heritage Foundation

“Some have argued that Latin America’s “golden decade” was mostly dumb luck. . . .”

“Income growth in Latin America in the past decade was not accompanied by meaningful structural reforms.”
The lack of meaningful reforms is why economic growth has stagnated.

The lack of meaningful reform is due a low level of economic freedoms.
Economic Freedom Index

The *Index of Economic Freedom* is an annual index and ranking created by The Heritage Foundation and *The Wall Street Journal* to measure the degree of economic freedom in the world’s nations.
Economic Freedom Index

Four Broad Categories

Rule of law
Government size
Regulatory efficiency
Open markets
Economic Freedom Index

12 Specific Categories

1. Property rights
2. Judicial effectiveness
3. Government integrity
4. Tax burden
5. Government spending
6. Fiscal health
Economic Freedom Index

12 Specific Categories

7. Business freedom
8. Monetary freedom
9. Trade freedom
10. Investment freedom
11. Labor freedom
12. Financial freedom
Heritage Foundation

Two Areas for Improvement

Weak institutions

ongoing toleration of corruption
crime and violence
absence of checks and balances
inefficient protections of property rights
Heritage Foundation

Two Areas for Improvement

Misallocation of Resources resulting in low productivity

Complex, unfair regressive tax system

Tax evasion

Firms devote more time than the global average to tax preparation
During the “golden decade” Latin America failed to move toward advanced economies due to a decline in economic freedom and a lack of reforms to major institutions.
Heritage Foundation
Recommended Reforms

Cut wasteful government spending
Guard the independence of central banks
Streamline regulatory structures
Institute a flat tax with a transparent fiscal system
Expand the pro-market trade agreements
Make labor laws more flexible and market friendly
Improve rule of law
The Economist

Learning the Lessons of Stagnation

June 27, 2015
Economic boom was not all wasted on a consumption binge

Levels of investment increased

Better regulated banks and public finances
Chile, Colombia, Peru and Bolivia are adjusting slowly.

Mexico, Central America and the Dominican Republic are set to do better than average.

Brazil, Venezuela and Argentina are the worst hit due to their bungling policies.
Latin America’s chronic structural weaknesses:

Saves and invests too little

Economies are not diversified

Firms and workers are unproductive
The Economist
Too Little Savings

Latin America saves too little

Less than 20% of GDP (vs 30% in South East Asia)

Rely on foreign savings
The Economist

Failure to Diversify Economy

There is a close correlation between diversity and complexity of exports for economic growth

Latin America fails to diversify its exports

Few exports are complex or knowledge intense

- Services and products requiring professional knowledge
  - Scientists
  - Engineers
Latin Americans seldom talk about technology and innovation – no new industries to take over commodities.

*Resource Curse*
The Economist
Low Productivity

Productivity is the efficiency with which labor and capital work together.

Latin America is relatively unproductive

The typical Latin American business lacks scale, productivity and professional management
The typical Latin American business resembles Alejandro’s shop, lacking scale, technology and professional management.
The Economist
Low Productivity

Reasons for low productivity

1. Need to achieve greater scale by selling abroad
   Latin America is quite protectionist
The Economist
Low Productivity

Reasons for low productivity

2. Half of Latin Americans work in non-registered businesses
   Struggle to get technology and capital
   Compete unfairly with legal firms
Reasons for low productivity

3. Too Much Bureaucracy
A 1,100 Km gas pipeline in Peru needs 4,102 separate permits
Why is the new Business Park is empty?
Environmental impact studies take an average of three years
Why do I need a coach?
Low Productivity

Reasons for low productivity

4. Poor infrastructure

Latin America invests only 3% of its GDP in infrastructure compared to 9% in China and 6% in India

Shoddy roads, poor public transportation, poor urban planning
A Brazilian Example

Brazil spends 1.5% of GDP on infrastructure. The global average is 3.8%.

Roads, railways, airports, and water ports all need to be expanded

A soybean farmer in Mato Grosso spends 25% of his product’s value getting it to port. In Iowa it is 9%.
8,000 trucks a day travel along this two lane pot holed road
4,000 empty offices in Itaborai, Brazil
Reasons for low productivity

5. Poorly educated workforce

Education has been expanded but the quality of teaching is poor
The Economist
Low Productivity

Reasons for low productivity

5. Poorly educated workforce

Eight Latin American countries that participated in the PISA international tests of 15 year olds came out in the bottom third.
PISA 2015 results
Snapshot of performance in science, reading and mathematics

Countries and economies are ranked in descending order of the mean science score in PISA 2015.
PISA 2015 results
Snapshot of performance in science, reading and mathematics

Mean score: Science Reading Mathematics
PISA 2015 results
Snapshot of performance in science, reading and mathematics

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<th>Country</th>
<th>Score</th>
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<td>OECD average</td>
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<td>Czech Republic</td>
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<td>Spain</td>
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<td>United Arab Emirates</td>
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<td>Trinidad and Tobago</td>
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<td>Thailand</td>
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<td>Costa Rica</td>
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<td>Qatar</td>
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<td>Montenegro</td>
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<td>Georgia</td>
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<td>Jordan</td>
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<td>Indonesia</td>
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<td>Brazil</td>
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<td>Peru</td>
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<td>Lebanon</td>
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<td>Tunisia</td>
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<td>FYR of Macedonia</td>
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<td>Kosovo</td>
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<td>Dominican Republic</td>
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</table>
The Economist
Low Productivity

Reasons for low productivity

6. Lack of innovation

Latin America’s spending on research and development is less than half of what developed nations spend.
Low Productivity

Reasons for low productivity

6. Lack of innovation

The only sector that has emphasized technology is agriculture.

Grapes in Peru

Farming in Brazil
Gains were made during the economic boom in banking, public finance and increased investment.

Structural weakness holds Latin America back.

- Low levels of savings and investment
- Need to diversify the economy
- Firms and workers are unproductive
A Summary of Recommendations

The Economist
Low levels of savings
Diversify economy
Unproductive
  Sell Abroad
  Non-registered businesses
Too much bureaucracy
Poor infrastructure
Poorly educated workforce
Lack of innovation

The Heritage Foundation
Cut waste
Independence of central banks
Streamline regulatory structures
Institute a flat tax with a transparent fiscal system
Expand the pro-market trade agreements
Make labor laws more flexible and market friendly
Improve rule of law
A Summary of Recommendations

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Going Forward

These recommendations do not include a social agenda.

The newly emerging middle class and the poor will demand a social agenda.

The problem going forward is how to have “Growth with a social agenda.”
Latin America

Is mostly democratic

Needs to diversify its economy and become more productive

Needs to improve rule of law and strengthen its institutions

Needs to maintain a social agenda
U.S. INTERESTS IN LATIN AMERICA
Latin America and the Caribbean: Key Issues and Actions in the 114th Congress

Mark P. Sullivan, Coordinator
Specialist in Latin American Affairs

January 4, 2017
The first six years of the Obama Administration pursued the same basic policy of the Bush Administration

Anti-drug and security support
FTAs with Colombia and Panama
TPP
Immigration reform
Differences between the Bush and Obama Administrations

Obama put more emphasis on partnership and shared responsibility

Security, energy, economic and social opportunity

Major changes by Obama in our Cuban policy

Obama imposed sanctions on Venezuelan officials
"Foreign aid remains and important tool for advancing U.S. Policy priorities in the hemisphere."
U.S. Foreign Aid to Latin America

Table 2. U.S. Assistance to Latin America and the Caribbean: FY2011-FY2016
(appropriations in billions of U.S. dollars)

<table>
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<tr>
<th></th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016 (Est.)</th>
<th>FY2017 (Req.)</th>
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<td></td>
<td>1.86</td>
<td>1.82</td>
<td>1.68</td>
<td>1.46</td>
<td>1.58</td>
<td>1.74</td>
<td>1.74</td>
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Source: CRS Correspondence with USAID Budget Office, June 2016.
## Table 3. Cumulative War Funding by Operation, FY2001-FY2015 Request

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<th>Fiscal Year/Operation</th>
<th>In Billions of $</th>
<th>As Percent of Total</th>
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<td>FY01-14 Enacted</td>
<td>FY2015 Request&lt;sup&gt;a&lt;/sup&gt;</td>
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<tr>
<td>Afghanistan/OEF&lt;sup&gt;b&lt;/sup&gt;</td>
<td>$685.6</td>
<td>$58.1</td>
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<td>Iraq/OIF/OND&lt;sup&gt;c&lt;/sup&gt;</td>
<td>$814.6</td>
<td>$5.0</td>
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<tr>
<td>Enhanced Security&lt;sup&gt;d&lt;/sup&gt;</td>
<td>$27.4</td>
<td>$0.1</td>
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<tr>
<td>Other&lt;sup&gt;e&lt;/sup&gt;</td>
<td>$81.3</td>
<td>$10.4</td>
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<td><strong>Total</strong></td>
<td><strong>$1,608.9</strong></td>
<td><strong>$73.5</strong></td>
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Obama Priorities for Latin America

Economic and social opportunity
Citizen security
Democratic governance
Clean energy future
Obama’s Priorities for Latin America

Economic and Social Opportunity

– Focus on poverty and inequality
– Build a modern workforce
– Empower small business
– Health and education
– Programs
  • The Pathways to Prosperity
  • 100,000 Strong in the Americas
  • Feed the Future
Obama’s Priorities for Latin America

Citizen Security

One of the most important concerns for Latin Americans

Counter drug trafficking

Plan Colombia
Merida Initiative
Central America Regional Security Initiative
Caribbean Basin Security Initiative
Obama Priorities for Latin America

Democratic Governance

Free and fair elections
Respect for political right and civil liberties
Rule of law and human rights
   Cuba, Venezuela, Nicaragua
Freedom of the press
Remove corruption
Obama Priorities for Latin America

Clean Energy Future

Energy and Climate Partnership of the Americas
Promote clean energy and reduce greenhouse gas emissions

Caribbean Energy Security Initiative
Promote clean and sustainable energy
Best and Worst Places to Live With Global Warming

The maps were created by London-based company The Eco Experts, using data from the University of Notre Dame in Indiana, known as the ND-Gain Index.
Regional Issues for Congress

U.S. Foreign Aid
Migration
Trade
Drug Policy
Terrorism
Organization of American States
Climate Change
Zika Virus
Regional Issues for Congress

Migration

Latin America is the leading source of legal and illegal migration to the United States

Factors that fuel migration to the U.S.
- Family ties
- Poverty and unemployment
- Political and economic instability
- Natural disasters
- Proximity
- Crime and violence
Regional Issues for Congress

Migration

Border enforcement since the 1990s has led to an increase in the use of criminal groups.

Latin American governments want a comprehensive immigration reform in the United States

Normalize status of illegal immigrants
Create a guest worker program
Regional Issues for Congress

Migration

El Salvador, Haiti, Honduras and Nicaragua have requested an extension of temporary protected status (TPS) for their migrants.

TPS is a humanitarian benefit granted to nationals from regions of conflict and natural disaster.
Regional Issues for Congress

Migration

Latin America and the Caribbean is the top destination for U.S. removals (deportations).

Latin American countries have requested information about deportees especially criminal records.
USAID has provided reception areas and reintegration assistance in the northern triangle region of Central America.
Trade

Latin America and the Caribbean is one of the fastest growing trading partners of the U. S.

The U.S. has strengthened economic ties with the region by implementing free trade agreements (FTA).
Trade

The U.S. has six FTAs involving 11 countries:

Mexico, Colombia, El Salvador, Guatemala, Nicaragua, Peru, Chile, Costa Rica, the Dominical Republic, Honduras, Panama.
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<td>215,875</td>
<td>225,954</td>
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</table>

Drug Policy

Latin America and the Caribbean is a source and transit zone for illicit drugs going to U.S. markets.

This region features prominently in the U.S. counter narcotics policy.
Drug Policy

Drug trafficking and transnational crime syndicates in the region contribute significantly to the degradation of citizen security and economic development.
Drug Policy

Many in Latin America blame the continuing demand for drugs in the U.S. for their crime and corruption problems.
Drug Policy

Maintain counter narcotics funding
Pursue counter narcotic goals for the region
Terrorism

The potential threat from terrorism is low in Latin America.

Most terrorist acts occur in the Andean regions of South America: Venezuela, Colombia, Ecuador, Peru, and Bolivia.
Terrorism

Terrorist attacks are committed by two Colombian guerrilla groups:

Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN)

Peace talks with both groups are underway.
Terrorism

Iran and Hezbollah have been linked to activities in the region including a 1994 bombing of the Argentine-Israeli Mutual Association (AMIA).
Regional Issues for Congress

Terrorism

Key Policy Issues:

Continued hearings on the involvement of Iran and Hezbollah in the region.
Counter terrorism campaign in Colombia
Cuba harboring U.S.-wanted fugitives
Regional Issues for Congress

Organization of American States (OAS)

The OAS is the oldest multilateral regional organization in the world. Promotes U.S. priorities in the Western Hemisphere.

Democracy promotion, human rights protection, economic and social development and regional security promotion.
Organization of American States (OAS)

The OAS has become less receptive to U.S. initiatives and prone to inaction.

Continued funding for democracy, development assistance, anti-corruption and address funding issues
Zika Virus

All countries in Latin America and the Caribbean have recorded cases of this virus for which there is no cure.
Zika responses have been led by Brazil and Colombia, WHO, Pan American Health Organization and the U.S. government.
Zika Virus

Some health care systems, particularly in Central America, lack the capacity to deal with the problem.

USAID reprogrammed $215 million and the Obama Administration reprogrammed $526 billion to respond to the outbreak.
Regional Issues for Congress

Zika Virus

Key Policy Issues:

Continued funding for global health in regions affected by the Zika virus.
Regional Issues for Congress

Outlook

Many of the U.S. interests involving economic, political, and security will continue to be a concern for the 115th Congress which begins in 2017.

Particular areas of concern will be a humanitarian crisis in Venezuela, peace accords in Colombia, security and economic development in Central America, and Nicaragua’s flawed elections.
Continuity and Change in U.S. Policy

Policy in Latin America by the Trump Administration “...at this juncture is uncertain.”

Possible changes

- Focus on border security with Mexico
- Reversal of Obama’s policy with Cuba
- Withdrawal from the TPP
- Reexamination NAFTA
Latin America’s Political Pendulum

Latin America’s political pendulum

by Michael Shifter and Bruno Binetti
BONUS
Winner of the 2016 International Math Olympiad

Defeated 100 teams from around the world including South Korea, China, Singapore and Taiwan
U.S. Team Wins First Place at International Math Olympiad

By GARY ANTONICK

JULY 18, 2016 12:00 PM

The United States has won the 57th International Mathematical Olympiad, the world’s most prestigious problem-solving competition for high school students. The competition, held July 6-16 in Hong Kong, included teams from over 100 countries. The winning U.S. team score was 214 out of a possible 252, ahead of the Republic of Korea (207) and China (204). Rounding out the top ten were Singapore (196), Taiwan...
Latin America: Economic Freedom and Economic Growth

AVERAGE OVERALL SCORE IN THE INDEX OF ECONOMIC FREEDOM

62.0
61
60
59
58
57

AVERAGE ECONOMIC GROWTH AS PERCENTAGE OF GDP

7.14%
6%
5%
4%
3%
2%
1%
0%

NOTE: For the purpose of this chart, Latin America is comprised of Brazil, Argentina, Bolivia, Ecuador, Venezuela, Colombia, Costa Rica, C Peru, Panama, and Mexico. Economic growth rates correspond to the annual percentage variation of the real GDP for each country.

Economic Freedom in Latin America: Average Component Scores

Economic and political turbulence brought on by populist leaders have turned the populace to moderate pragmatists.
The good times are over and Latin America’s economy is screeching to a halt.
REVIEW
Figure 11: Latin America: Period and Stages of Demographic Dividend

Economic Growth
Commodities Boom

2003 – 2013 Unprecedented economic growth in South America due

- Economies grew by 3.6% annually
- GDP per capital rose by 2.4%
- Poverty rate fell from over 40% to 25%
- Extreme poverty fell from nearly 25% to 12%
Latin America’s Political Pendulum Swings

Rightist Authoritarian Regimes

Democracy

Leftist Authoritarian Regimes

Great Decisions
Col. Ian Lyles
“Latin America’s Political Pendulum”
March 17, 2017
THE UNITED STATES ARMY WAR COLLEGE
• PA  Pacific Alliance of Mexico, Peru, Colombia and Chile

• ALBA  Bolivia, Ecuador, Argentina and Venezuela