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Feature Report

South America: New Realities, Persistent Challenges

Over the past decade, South America has experienced dramatic changes, in terms of both the region's politics and its place in the global economy. But while progress has been made, it has been uneven, and many shared governance challenges remain stubbornly persistent. That has meant unexpected foreign policy defeats for Venezuelan President Hugo Chavez, who has seen his influence plummet in recent years. It has also highlighted the ways in which U.S. policy must be brought up to date to reflect the region's new realities.

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SOUTH AMERICA'S GOVERNANCE AGENDA

BY MICHAEL SHIFTER AND ALEXIS ARTHUR

In June 2011, Ollanta Humala was elected president of Peru after campaigning on a platform of change. Significant for Peru, but also for South America more broadly, Humala advocated for moderate, not revolutionary, change -- calling for a better and fairer distribution of the fruits of Peru's impressive economic growth and for lower levels of corruption and crime. That kind of program won't entail upending the prevailing system. It will, however, require serious institutional reform.

The Peruvian case dramatically illustrates wider trends in South America, where sustained economic growth and sound macroeconomic policymaking in recent years have coexisted with continuing governance challenges. Peru has not only been one of South America's top economic performers over the past decade. The Andean nation has also witnessed a drop in poverty levels, from more than 50 percent in the early 2000s to just more than 30 percent in 2010. Studies show that even the disparity between the rich and poor has narrowed somewhat.

Yet, since taking office in July, Humala has wisely insisted on making "social inclusion" in Peru a priority. The term, which has growing resonance throughout the continent, is defined not only in terms of reduced poverty and inequality, but also, significantly, in terms of increased political participation and wider access to economic opportunities. On these scores Peru has fared considerably less well, giving rise to profound distrust of political institutions and pervasive discontent, which Humala skillfully tapped into during his election campaign. The dissatisfaction is particularly acute in the southern highlands of Peru, where the country's important indigenous population is concentrated.

Despite Humala's discourse and good intentions, as well as the creation of a Ministry for Development and Social Inclusion designed to serve as the umbrella for an array of pre-existing social programs, it remains to be seen whether Peru will be able to pass two crucial tests. The first is to develop the institutional capacity to undertake more serious, far-reaching social reform efforts than Peruvian governments to date. Peru's conditional cash-transfer program, known as the Juntos ("Together") program, which gives subsidies directly to low-income populations, has been far more modest than similar programs in other parts of Latin America. In Brazil, for example, the Bolsa Familia ("Family Basket") program has been more ambitious and extensive, covering some 84 percent of the poor, compared to only 17 percent in Peru. The program was a key factor in lifting some 30 million Brazilians out of poverty from 2002 to 2010.

The second test for Humala is to balance efforts to devote more-serious attention and substantial resources to Peru's social agenda with the need to maintain the country's sound fiscal position and continued economic growth. Humala has generated high expectations, especially among poor, marginalized Peruvians, who voted for him in overwhelming numbers, meaning there is great pressure on him to deliver results. But at the same time, he cannot afford to put at risk continued foreign investment, especially in the mining sector, which helps fuel the high growth rates Peru

has become accustomed to. For Humala, the initial signs are encouraging: He has been able to get the Peruvian Congress to adopt an increased tax on mining companies to help finance social expenditures, and he has also successfully passed a law that requires extensive consultation with communities affected by such investments.

Whether these measures will be effectively implemented, however, remains to be seen -- and could have implications that extend beyond Peru: The country is in many ways illustrative of the region at large, for the governance challenges it faces, though extreme, are shared to a greater or lesser degree by almost all South American states.

THE REGIONAL GOVERNANCE OUTLOOK

Economic Growth. Since 2003, much of South America has witnessed relatively good times, marked by sustained economic growth, averaging nearly 5 percent, according to the World Bank. Moreover, though estimates vary, the middle classes have expanded considerably in a number of countries. In 2010, Paraguay led the region with a stunning 15 percent GDP growth, followed by Argentina at more than 9 percent and Brazil at greater than 7 percent. Even South America's lowest performers posted moderate growth rates. The exception was Venezuela, which experienced negative growth of nearly 2 percent in 2010, representing a downward trend from 2006, when GDP growth stood at almost 10 percent.

Brazil's performance stands out because of its sheer size and huge economic significance in the region -- it accounts for roughly 60 percent of South America's GDP -- but also because of its growing global stature and profile. Impressive political leadership that became a proxy for good democratic governance, combined with responsible economic management and commitment to social progress, have helped put Brazil on a productive and promising track. The two-term presidencies of Fernando Henrique Cardoso (1995-2002) and Luis Inacio "Lula" da Silva (2003-2011) helped overcome some of Brazil's longstanding problems of economic and political instability. They also helped loosen social rigidities. Lula, in particular, benefited enormously from a highly favorable external environment, marked by China's voracious appetite for Brazilian commodities such as iron ore and soy, which enabled him to vigorously pursue the country's pending social agenda.

China's huge demand for South American raw materials has been felt across the continent over the past few years and has been a critical factor in fueling growth. China's growing economic and commercial role has been largely beneficial for the continent's development, compared to its impact in Mexico and Central America, which has been more mixed. China is now Brazil and Chile's largest trading partner and the second-largest for Peru, Argentina and Colombia. It has played a fundamental role in creating the opportunity for South American governments to carry out broad institutional reforms and enhance competitiveness and productivity, which remain very significant challenges throughout the continent.

Persistent Social Inequality. To be sure, there has been some modest progress in reducing levels of social inequality, which has long been Latin America's Achilles heel. Advances can be attributed to a combination of sound economic management and better and more-vigorous social policies. There has, for example, been a dramatic expansion in primary and secondary education in the region, which has contributed to important levels of educational mobility. But wider access to education has not translated into higher-quality education, which today represents one of the region's most fundamental challenges. On international test scores, Latin American students fare poorly, particularly compared to their counterparts in a number of Asian countries. More-thoroughgoing reforms focused on training more-competent teachers and on adhering to high standards are pending in most countries. There is also a need for better access to tertiary education and training. And while cash-transfer programs have played an important role in reducing inequality, South American governments have been reluctant to evaluate social programs and either eliminate or modify those that are ineffective or that, in some cases, even exacerbate inequality. Cutting social

programs is, to be sure, a difficult political decision for any president associated with promoting a social agenda. But continuing and rigorous appraisals are vital to sound public policy decisions.

Perhaps no country more clearly illustrates the continuing governance challenges in South America than Chile. Often touted as the region's success story, Chile's two decades of center-left coalition governments following the end of Augusto Pinochet's dictatorship in 1990 managed to combine a concern with democratic governance and economic growth with a commitment to a progressive social agenda. In 2011, however, under the center-right government of President Sebastian Piñera, Chile has been rocked by unexpectedly massive demonstrations, the largest the country has seen since the Pinochet period. Students have been joined by education workers and various unions throughout the country to demand greater access to educational opportunities and political participation -- a demand that had been building for some time in Chile. Despite the country's notable reduction in poverty levels, inequality remains a persistent problem with immense political implications. Chile's political party system, traditionally ranked among the region's most credible and respected, has declining approval levels and is struggling to deal with rising societal demands, which in part reflects a significant generational shift. Young Chileans, even in a relatively prosperous context, are pushing for the realization of democratic ideals.

Democratic Diversification. Curiously, although Chileans hold the country's political class today in low regard, Piñera's predecessor, former President Michelle Bachelet (2006-2010), still enjoys high approval in the polls. This might be explained by the fact that Bachelet, Chile's first female president, does not fit the mold of the traditional politician and is regarded as somehow separate from the political class. This reflects the extent to which the new faces of South America's political leadership more closely resemble the societies they represent -- a striking feature in much of the continent's politics over recent years and one that constitutes a positive democratic tendency. In January, Brazilian President Dilma Rousseff -- like Lula, of the Worker's Party -- became the country's first woman president, and in September she enjoyed approval ratings of more than 70 percent. (In Argentina, too, President Cristina Fernandez de Kirchner was elected in 2007 and appears to be headed for re-election in that country's election scheduled on Oct. 23.) Rousseff and Bachelet are particularly notable as the first female presidents in South America not to follow in a spouse's footsteps.

South America's political landscape has become more diverse in other fundamental respects. The traditional elite categories that have long defined and driven governing structures have substantially weakened. Bolivian President Evo Morales, elected in 2005 and re-elected in 2009, is the country's first indigenous president, an important achievement given that more than 60 percent of Bolivia's adult population identifies as indigenous. Morales's support has declined in 2011, and he faces considerable resistance from sectors of Bolivia's indigenous movement. Nevertheless, his presidency has enormous political significance and marks an impressive gain that, fortunately, will not easily be reversed.

Moreover, in 2001, Alejandro Toledo became Peru's first self-identified indigenous president. Toledo's personal journey from poverty to the presidency highlights deeper, positive changes in South America's social fabric. Of course, Lula's poor origins and many years spent as a union leader make for a remarkable biography, too, giving him enormous credibility and authority on policies aimed at fighting poverty and inequality. The election of Humala in Peru this year, as well as that of Venezuelan President Hugo Chavez, also from a poor background and military career, in successive elections since 1999 are also illustrative of the region's loosening social structures.

A Mixed Governance Picture. Some of these leaders have, of course, fared better than others. Chavez has generated the most controversy, in part the result of his sometimes belligerent rhetoric -- including his signature defiance of the United States --and a governance model that has decidedly concentrated power in his own hands. Venezuela under Chavez bears scant resemblance to what might be called the Brasilia consensus -- reflected in Brazil but also in Chile, Uruguay and to a certain degree Colombia -- that prizes democratic governance, economic growth and effective

social policies. True, Chavez deserves credit for putting an emphasis on the legitimate grievances of social injustice in Venezuela and throughout the region. But the social programs he has put in place are not sustainable, and Venezuelans are experiencing increasing problems in basic governance: There is little compromise and negotiation in Venezuela and limited political competition, as Chavez makes all of the key policy decisions.

These autocratic tendencies have put Venezuela out of sync with most of South America on key governance indicators. In 2011, for example, Freedom House scored Brazil, Peru, Argentina, Chile and Uruguay as "free," meaning they protect basic political rights and civil liberties. Colombia, Venezuela, Ecuador, Bolivia and Paraguay were classified as "partly free." Of these, Venezuela was ranked at the bottom because of the government's efforts to stifle political gains made by the opposition in the 2010 parliamentary elections, as well as attempts to restrict the media. Ecuador, too, has had a troubling record on press freedom questions, as seen in reports by independent watchdog groups such as the Committee to Protect Journalists as well as the special rapporteur of freedom of expression of the Organization of American States' Inter-American Human Rights Commission. There are also growing concerns about measures that threaten the independence of Ecuador's judiciary by concentrating judicial power in the executive.

Colombia, South America's second-most-populous country, offers a more complex and contradictory picture. On one hand, it has experienced high levels of corruption and human rights violations, and remains the site of the Western Hemisphere's only continuing armed conflict. At the same time, however, the country's highly independent and professional Constitutional Court is the envy of much of South America. In February 2010 it ruled that incumbent President Alvaro Uribe, who had been in office for two four-year terms, could not run for a constitutionally prohibited third term. That Uribe abided by the court's decision was a measure of the strength of Colombia's adherence to the rule of law and its democratic political culture.

In addition, there has been a rise in the number of corruption cases investigated in Colombia, and those found guilty have spent time in prison. Since President Juan Manuel Santos took office in August 2010, the country has also become less politically polarized than it was toward the end of the Uribe period, which marks a positive step toward greater institutional stability. As a result, Colombians are generally upbeat: Foreign investment is increasing in a variety of key economic sectors, and Santos is pursuing an ambitious reform agenda. Still, Colombia has one of the region's highest levels of inequality -- and nearly half of the population still lives in poverty. The social agenda demands a lot more serious policy attention and resources.

The Security Challenge. As the Colombian case shows, the security challenge remains a formidable one in much of South America, even if recent media coverage has focused more on drug cartels and organized violence in Mexico and Central America. Polls consistently reveal that for citizens in nearly all of the Latin American countries, crime and insecurity is the top concern. Yet government performance on this issue has generally been disappointing.

To be sure, Colombia's security situation has generally improved over the past decade, thanks in large measure to the state reasserting its authority throughout the country. Still, the armed conflict is far from over, and, most ominously, some of the paramilitary forces demobilized around 2005 and 2006 have morphed into criminal bands, heightening security problems in cities like Medellin and Bogota. There have been some "successes" in other countries, too, particularly Brazil's efforts in reducing crime in Rio de Janeiro, but it has been a struggle to sustain the gains, and effective policy approaches have not been widely applied.

While drugs are not the only contributing factor to continuing criminal violence, they are a significant dimension of the problem that cannot be ignored. That is reflected in continuing high levels of production, trafficking and, increasingly, consumption. In 2008 a commission led by three former Latin American presidents proposed some policy changes that they argued should be considered by decision-makers and included as part of a serious public debate.

If the 2010s are to become the "decade of Latin America," as some have confidently predicted, and if South America in particular is going to take off as a highly dynamic region on the global stage, then it will be essential to devise more productive policy solutions for the region's security problem. There has been public pressure for harder-line approaches to address criminal violence, but such responses, typically born of frustration, have yielded few positive results and have often been counterproductive. Other voices have urged attention to unemployment and other structural challenges, but these are longer-term propositions and do not deal with the immediate problem. Sensible and sophisticated public policy approaches to address citizen insecurity in South America have been lacking, which has only added to public dissatisfaction with government performance.

There have been some examples of successful police and judicial reform in South America, including the creation of ombudsman offices, but in general these reforms have been too modest, notoriously slow and resistant to change. The key obstacle is less a lack of resources than a lack of political will. Judicial systems are often inefficient, plagued by corruption and, in a number of South American countries, highly politicized. Conviction rates are extremely low, and there are serious problems in most countries with prolonged periods of pretrial detention. As human rights groups have documented, prisons are also in deplorable condition in many countries. In this context, private security companies have blossomed. Such responses are understandable, but unless there is a serious and well-coordinated approach, then security conditions could continue to worsen, posing a major challenge to effective democratic governance in the continent.

CONCLUSION

With some exceptions, South Americans today are feeling confident about the progress they have made in recent years. On balance, the continent has made important strides, reflected most strikingly, perhaps, in a growing middle class that, however precarious, has greater access than ever before to economic and educational opportunities. Many governments in the region, led by Brazil, proved analysts wrong in 2008 by weathering the economic and financial crisis far better than many anticipated -- a measure of the sound macroeconomic policies carried out in recent years. The transformations at the national level in many countries are reflected in a more assertive foreign policy and deeper international relations with global players beyond the Americas, especially in Asia.

The key question looking ahead is whether the progress achieved so far can be sustained and, more importantly, whether it can enable South America to compete more effectively in the global economy and pursue essential reforms -- in education, police, tax and justice systems, for example -- that would make the region more productive. To some extent, with the profound economic problems in Europe and severe difficulties in the United States, South America appears to be in comparatively good shape, poised for continued growth and improved governance. The darkening clouds in the "developed world" only reinforce a positive self-image in much of South America.

But 2011 may not be 2008. Though uncertainties abound and there is little consensus about what awaits the global economy in coming years, the situation generally seems ominous. For South American nations, that will mean somewhat lower growth projections over coming years and, in turn, the need to rein in spending and make some difficult policy choices. These decisions will no doubt have implications for the poorest and most marginalized South Americans, and could well contribute to the social conflicts and tensions already evident in a number of countries.

The challenge for South America will be to focus on the long-term underlying needs of the region, with priority attention given to improving social inclusion and justice. What former Brazilian President Fernando Henrique Cardoso said about Brazil in 1994 could easily be applied today to the region more widely: "Brazil is no longer an underdeveloped country. It is an unjust country." If South America is to compete more effectively with Asia in the global economy, it will have to build on and take better advantage of the progress that has been made to date, ensuring that all citizens can enjoy basic security, high-quality education and economic opportunities. That is

surely a tall order in a continent that has already made enormous strides, and the political constraints in making further progress are formidable. But in country after country, political leaders are getting the message from their citizens, particularly the younger generation, that they cannot remain complacent. □

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Photo: Peruvian President Ollanta Humala in Santiago, Chile, June 15, 2011 (photo by the government of Chile, licensed under the Creative Commons Attribution 3.0 Chile license).

CHÁVEZ'S DECLINING INFLUENCE IN LATIN AMERICA

BY JAVIER CORRALES

One of the subjects dominating discussions of Latin American politics this year has been the June 30 revelation that Venezuelan President Hugo Chávez is being treated for cancer. Very little is known about his illness, other than the not-so-encouraging news that he has received four, possibly five, chemotherapy treatments, most them in an undisclosed location in Cuba.

A bombshell accompanied by such secrecy has raised speculation about the future of Venezuelan politics. It seems that all scenarios, ranging from Chávez's death to his full recovery, are possible, which makes the presidential election scheduled for October 2012 one of the most uncertain in Latin American history.

Receiving less attention, however, is the fact that not just the Venezuelan president is seriously ill: So is his foreign policy. Taking advantage of the low levels of popularity of the United States in Latin America around 2003 and widespread discontent over the dire economic crisis of 1999-2002, Chávez launched the most anti-American, anti-capitalist foreign policy the region had seen since the Cold War ended. He called on Latin American nations to join his crusade, offering ample economic rewards to those willing to follow along. By 2004, the United States began to consider Venezuela the biggest security threat in the region. For a while, with the region electing more and more governments on the left, Chávez's influence seemed uncontainable. In 2008, the Bolivarian Alliance for the Peoples of the Americas (ALBA), Chávez's most important alliance in the region, peaked with nine member-states.

Today, in contrast, Chávez's grand foreign policy in Latin America is in trouble. Those countries whose governments claim to be Venezuela's allies are in serious political crisis. Elsewhere, Chavista-influenced political forces have suffered serious setbacks, either through repudiation by public opinion, rejection by top parties or defeat at the polls. It seems that the foreign influence of Chavismo, in Latin America at least, is ailing.

THE RISE AND DECLINE OF CHÁVEZ'S INFLUENCE IN LATIN AMERICA

Across the planet, Chávez has pursued a wide array of foreign policy objectives, ranging from maximizing the price of oil to minimizing contacts with private multinationals to securing plentiful supplies of weapons. But within Venezuela's own backyard of Latin America and the Caribbean, Chávez's foreign policy has been relatively straightforward and, to some extent, relatively monochromatic. The three main pillars have been: first, to prevent other Latin American governments, mostly all democratic, from criticizing Chávez's democratic trespasses at home; second, to block most of the United States' signature foreign policy initiatives in the region, such as promoting free trade and market reforms, prosecuting the drug war and supporting civic groups advocating for liberal democracy; and third, to increase the electoral prospects of like-minded social movements, parties and governments, in order to shift the ideological orientation of the region into alignment

with Chávez's own government.

Of these objectives, only the first has met with success. Today, almost no government in the region, regardless of ideological persuasion, dares to criticize the Chávez administration in public. In the mid-2000s, U.S. Secretary of State Condoleezza Rice tried to create a coalition of South American nations willing to say no to Chávez's radical rhetoric, to his lax approach toward drug interdiction and money laundering, to his mistreatment of the Venezuelan opposition and press, to his meddlesome foreign policy and to his sinister dealings with rogue states like Iran and guerrillas such as the FARC in Colombia. And yet, no Latin American president joined this effort to create an anti-Venezuela front.

This diplomatic silence is not just a product of Latin America's well-established diplomatic politeness. It is also the result of Chávez's petrodiplomacy, which consists of two major forms of foreign aid. The first consists of concessions, real or promised, of highly subsidized oil, which appeals especially to the smaller and poorer countries of the region. The second consists of unscrutinized contracts and trade deals with non-U.S. multinationals and state-owned corporations, which pleases the richer countries of the region. Because no country in the region wants to be excluded from receiving these awards, none dares to criticize Chávez except in the most extreme cases. Even Colombia, which has a number of security concerns with Venezuela, has decided since 2010 to tone down its criticisms, in part to protect booming bilateral trade with its neighbor, which reached almost $2 billion this year.

Venezuela's two other foreign policy goals, in contrast, are in deep trouble. The effort to convince Latin American countries to turn their back on the United States seems to have found no takers. Except for the four most important members of Chávez's ALBA grouping -- Ecuador, Bolivia, Nicaragua and Cuba -- no country in the region is virulently anti-American, and none has changed its foreign policies vis-à-vis the United States to align themselves with Venezuela. Even Brazil, the emerging regional leader, is becoming friendlier rather than more antagonistic toward the United States, defying what realists would predict. Meanwhile, whatever difficulty the United States is having in achieving some of its goals in the region has more to do with intrinsic problems in the goals themselves or with particular issues in bilateral relations than with countries hoping to please Chávez.

The third pillar of Chávez's foreign policy, that of promoting like-minded political movements, is in even worse shape. In the mid-2000s, Caracas began to support any government in the region that was willing to adopt Chávez's ideology. Internationally, this meant a willingness to challenge the United States abroad and deepen ties with U.S. enemies, including nondemocracies such as Cuba, Iran, Belarus, North Korea and Syria. Domestically, it meant creating electoral majorities to win the presidency by promoting a new form of so-called participatory democracy; adopting a virulent, anti-party discourse that went beyond mere anti-neoliberalism; transforming the laws, and preferably the constitution, to weaken checks on the power of the executive branch; inserting loyalists in governmental institutions to further weaken checks and balances on the president's power; and expanding the role of the state in the economy. Chavismo is thus an ideology that promotes expanding presidential powers, and justifies doing so with a discourse of redistribution. Initially, this ideology appealed to a number of regional politicians, in part because it rationalized what many presidents fantasize about: fewer checks and balances, all under the guise of expanding democracy and poverty alleviation.

In the early 2000s, conditions were ripe for the expansion of Chavista influence in Latin America. The region was recovering from a brutal recession, and a Chavista diagnosis of what had gone wrong made sense to large sectors of the electorate. The diagnosis went something like this: The market-oriented reforms of the 1990s had gone too far in rolling back the state; the International Monetary Fund and the United States had promoted the interests of creditors and foreign corporations above the interests of the poor; and traditional political parties were nothing more than cartelized oligopolies unresponsive to constituents. Furthermore, the image of the United States

dropped precipitously in 2003 following the Iraq War, which served as a bitter reminder of a U.S. unilateralism that rang familiar in Latin America.

As a result, Chavista-friendly forces acquired momentum across the region, winning elections in Argentina, Bolivia, Ecuador and Nicaragua, and coming close in Mexico and Peru. In Honduras, a sitting president, Manuel Zelaya, turned Chavista once in office. Even in countries where the moderate rather than radical left prevailed, the radicals proved to be politically influential. In Brazil, for instance, radicals proved to be thorns in the side of the moderate-leftist administration of President Luiz Inacio Lula da Silva, torpedoing many policies and basically forcing the government to hand over important aspects of Brazil's foreign policy to them. And in Cuba, the historical bastion of radical leftism in the region, the modest economic reforms of the 1990s were pretty much wiped out by the early 2000s, in part because the economic support that Chávez began to offer the island nation made internal reform less necessary for the Castro brothers' political survival.

Ideologically, therefore, Latin American politics looked to be taking a more radical turn in the mid-2000s than at any point since World War II, with Chávez in Venezuela emerging as the left's benefactor-in-chief. Caracas supplied its allies with technical advice, moral support and rhetorical exhortation, along with plenty of cash, oil and favorable trading terms. Even the Cold War-era phrase "domino effect" made a comeback in some circles in Washington to refer to the spread of Chavismo in the region.

Today, it seems that the Chavismo wave has been contained and may be retreating. First, since the 2007 election in Argentina, when Cristina Fernández de Kirchner became the last more-or-less Chavista president to be elected in Latin America, Chavista candidates have not fared well at the polls: In 11 presidential elections since then, no new Chavista candidate has won office or even come in second. Outside of the tiny circle of already-Chavista governments, Chavismo is electorally weak. The most noteworthy example of this trend occurred this year in Peru, where Ollanta Humala rebranded himself as a moderate leftist to win the 2011 presidential election, after having run and lost in 2006 as an unrepentant Chavista.

As significant as Chavismo's failure to expand its influence is the fact that most sitting Chavista presidents are in crisis. Their penchant for autocratic decision-making is producing dramatic defections from key political allies. In Ecuador, for example, the once pro-government indigenous movement CONAIE and its political party, Pachakutik, are not just protesting the government's energy policies, but are actually suing the government for alleged genocide. In Bolivia, indigenous allies that initially supported the administration of President Evo Morales protested in July 2010 against the rise in gasoline prices and in September 2011 against the construction of a highway through the Tipnis territory, a national reserve home to 50,000 indigenous inhabitants. In Nicaragua, President Daniel Ortega's ruling Sandinista party has essentially been split in half between Orteguistas and the defecting rest. While Ortega is likely to be re-elected, the government faces a level of polarization that is reminiscent of the civil war years of the 1980s. And in Cuba, the only country in the Chavista alliance where there are no presidential elections, there are increasing signs of street protest. Crackdowns and arrests have surged, and the number of Cuban illegal refugees intercepted by the United States in the Strait of Florida or in U.S. shores has doubled this year.

It is not clear how these internal conflicts within ALBA member states will turn out. The governments may become more repressive or more accommodating. Opponents might become more obstinate or more yielding. Either way, these governments are facing defections and polarization, leaving Caracas with allies that increasingly seem like damaged goods.

EXPLAINING THE DECLINE

Why is Chávez's Latin American foreign policy in decline? Part of the answer has to do with prob-

lems inherent to the Chavista ideology, but part of it also has to do with Chávez's own mistakes at home and abroad.

Regarding the ideological foundations of Chavismo, three of its main pillars -- rabid anti-Americanism, rabid anti-capitalism and semi-authoritarianism -- have proven to be widely unappetizing to large sectors of the electorate. For instance, there is evidence that Latin America's anti-Americanism was never as extreme as Chávez's and has even receded lately. A recent poll (.pdf) on the United States' image abroad shows that in the three Latin American countries surveyed, the United States' favorability rating has risen between 2007 and 2009 -- in Argentina from 16 to 38 percent; in Brazil, from 44 to 61 percent; and in Mexico from 56 to 69 percent. In addition, the number of Latin Americans who see the U.S. as a "partner" rather than as an "enemy" also increased in the same period -- in Argentina, from 25 to 41 percent; in Brazil from 34 to 59 percent; and in Mexico from 48 to 64 percent.

Important sectors of the Latin American population will always display anti-Americanism. In fact, Latin America essentially invented the notion of a South-based anti-Americanism in the 19th century. But since the Cuban revolution of 1959, two things have become clear about regional attitudes toward the U.S. First, radical versions of anti-Americanism are in the minority. Second, the region's anti-American sentiment can change in response to changes in U.S. policy. Not only did Chávez's brand of anti-Americanism prove to be far too radical for most ordinary citizens, but the switch from President George W. Bush's apparent unilateralism to President Barack Obama's call for partnerships has been overwhelmingly welcomed by the region, making Chávez's virulent posture appear misplaced, unfair and undiscriminating. And now that Latin Americans have more international economic partners, including China, they are discovering that doing business with U.S. firms isn't as bad as they had previously thought. Latin America's rising trade diversity is actually boosting, rather than damping, demand for greater U.S. economic presence, if for no other reason than to increase bargaining leverage with other trade partners.

Chávez's anti-capitalism, another of his ideological pillars, also goes too far, despite the fact that Latin America has historically been wary of free-market economics. Indeed, even today, neither governments nor electorates display a preference for the strict neoliberalism of the 1990s. But Chávez's brand of socialism is equally unappealing. Latin Americans may have acquired a taste for state ownership of mineral and energy resources, but few want to indiscriminately renationalize economic sectors and restrict foreign investment -- especially by the United States -- in the way that Chávez advocates.

Finally, Chávez's brand of semi-authoritarianism, whereby a president uses majority support to erode the institutions of checks and balances, has produced strong allergic reactions throughout the region everywhere it has been attempted. Three institutions in particular -- political parties, the press and the courts -- have taken center stage in every place a Chavista-type movement or president has made inroads, alerting the electorate to the risks associated with power concentration. In Argentina, Honduras and Ecuador, even factions of the ruling parties have rebelled against Chavista tendencies to concentrate power. Chavistas in turn claim that these institutions are merely serving the interests of the empire and the oligarchy. Yet, outside of the ALBA countries, these institutions have prevailed politically, often in sync with public opinion, forcing Chavista candidates to moderate their anti-party, anti-press and anti-court discourse.

CHÁVEZ'S BAD HABITS

But it's not just the Chavismo ideology that is in trouble: Chávez's ability to finance his foreign policy is too. Undeniably, there is an economic constraint on Chavismo, but this constraint has less to do with international capitalism, as Chávez claims, than with his brand of domestic socialism.

Despite a record-breaking windfall of almost $519 billion in oil-based income since Chávez came to power, Venezuela's economic performance is a story of rising debt, inadequate investments,

high inflation, capital flight, chronic recession in the construction sector and unimpressive poverty alleviation -- all the result of Chavenomics.

Most scholars of petrostates are familiar with the famous concept of Dutch disease, or the propensity of commodity-dependent economies to experience an overvalued exchange rate during a price boom, which destroys other exports and increases the import bill. Venezuela is experiencing this Dutch disease like at no other point in its history. What scholars are less familiar with is what might be called Bolivarian disease, after Chávez's Bolivarian Revolution.

Bolivarian disease has two components. The first involves the mismanagement of the public sector in general, and the state-owned oil sector in particular. The executive branch eliminates all forms of checks and balances, especially within the oil sector, and in addition politicizes the industry -- by firing competent staff and replacing them with loyalists; by granting contracts to firms that offer political favors rather than competitive services; by privileging consumption spending rather than long-term investment; by giving oil to allies at a loss to the state. The result, unsurprisingly, is dismal economic performances, with both the revenue side and the spending side suffering. On the revenue side, despite a steady increase in oil reserves, Venezuela's oil extraction rate has declined to one of its lowest points in history. On the spending side, the government exercises so little oversight that most spending goes to corruption, often intentionally.

The other component of the Bolivarian disease has to do with the mismanagement of the private sector, with Chávez's Bolivarian Revolution reading like a laundry list of anti-business policies. More than 1,000 expropriations have taken place since 2002, affecting both international and locally owned firms. The private sector is inundated with absurd regulations and restrictions, including some of the most byzantine exchange rate regulations in the world. The World Bank's 2011 Doing Business Report rates Venezuela among the hardest places to do business, worse than war-torn Afghanistan. This convoluted regulatory environment produces the worst form of capitalism: Because of state-imposed restrictions, few firms can enter any market, which leads to weak competition and, in turn, huge profits for the lucky firms that are allowed to survive. But because the business environment is so hostile, profits don't translate into investments. Venezuelans are thus exposed to a double whammy: Consumers suffer scarcity and high prices, and whole sectors of the economy are starved of investment. The government blames the private sector for this massive business bottleneck, but in reality, it's the result of the government's malignant approach to the private sector.

The Bolivarian disease, together with the Dutch disease, explains the phenomenal economic underachievement of Chávez's Venezuela, even in 2010, a year of very high oil prices and regional recovery. Poverty alleviation, which was dramatic during the first years of the oil boom, has now stagnated or even begun to reverse. Corruption is rampant. Salaries and wages are collapsing. And growth projections for 2011 are paltry.

This domestic economic crisis not only seriously impairs Venezuela's ability to fund its foreign policy, it also hampers its ability to devote quality attention to it. Worse still, the economic mismanagement has now caused friction with one of Venezuela's major economic partners, China. The Chinese have invested heavily in Venezuela, offering almost $29 billion in loans and credit lines, and promising to invest almost $40 billion in projects in the Orinoco heavy-oil belt. But lately the Chinese have become so concerned about the unforthcoming returns on their investments that they are increasing pressure on the Venezuelan government to become more transparent in its public management. It is rumored that Venezuela's recent decision to remove most of its dollar and gold reserves from the United States and Europe, and to move a portion of them to China, is a response to Chinese pressure for more collateral due to their loss of respect for Venezuelan authorities. The fact that Venezuela's main ally is now proving to be its most stringent condition-setter illustrates the hollowness of Chávez's promise to liberate Venezuela, and Latin America, from foreign domination.

CONCLUSION

With polarization plaguing its allies in the region, rollback efforts prevailing among nonallies and internal restraints arising from domestic economic mismanagement, Chávez's foreign policy seems to have reached a high-water mark.

The good news is that there have been signs from Caracas over the past year or so that a correction is coming. Relations with Colombia have improved markedly, to the point where it is hard to imagine that not long ago Venezuela had declared an embargo amid talk of war. Days after the United States accused Venezuela of failing to fight drug trafficking, Venezuela deported six suspected drug traffickers to Colombia and one, a U.S. citizen, to the U.S. In fact the Venezuelan government claims to have deported 69 drug lords, 16 of them to the United States. Venezuela has also adopted a more conciliatory stance on several hemispheric issues, including becoming more accommodating toward the government that succeeded the deposed Zelaya in Honduras.

Yet, this moderation does not yet amount to a wholehearted conversion. There are still signs of heavy-handed radicalism. Chávez's anti-American discourse has actually escalated. Chávez has shown no interest in being more transparent in his relations with Iran or to open Venezuela's vast arms purchases to international scrutiny. Chávez shocked the world and embarrassed himself by trying to create a coalition of Latin American countries to defend the indefensible regime of Libya's Moammar Gadhafi. But rather than being perceived as anti-imperial, Chávez's Libya policy struck most Latin American countries as nonsensical.

Thus, in terms of foreign policy, Venezuela's is beginning to look like an undecided regime, and perhaps even a two-faced one. Nobody knows for sure whether this ambivalence is coming from the ailing president himself, or from divisions within the administration. Either way, there are signs that the Venezuelan government has recognized that it needs to treat its foreign policy with some type of chemotherapy. But it still does not seem to have gotten its addiction to radical, meddlesome, gratuitous anti-imperialism under control. As with all addictions, the prospects for rehabilitation are slim, in part because addiction often serves an escapist purpose, and Chavez needs ways to justify and escape the mess he has created.

For the United States, the takeaway should be that its current policy toward Venezuela of avoiding a direct confrontation by talking -- and sanctioning -- softly seems to be working. The policy's benefits are twofold. It avoids converting Chávez's foreign policy into a Venezuela-U.S. problem, which is what Chávez, an agent provocateur par excellence, really wants. Second, it lets other forces in the hemisphere do the work of containing Chávez, which by and large they are. The United States should rejoice that, for once, South American actors and institutions are shouldering some of the burden of advancing American interests in the region. □

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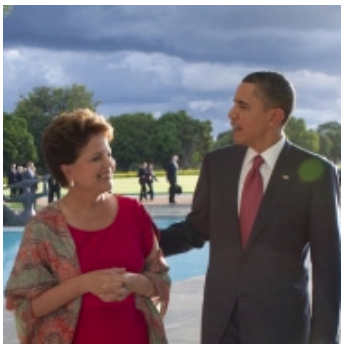
Photo: Venezuelan President Hugo Chavez, Oct. 1, 2011 (photo from the official blog of Hugo Chavez).

U.S.-SOUTH AMERICA RELATIONS: RISING RIVALRY, PRICKLY PARTNERSHIP

BY CHRISTOPHER SABATINI



Recent developments in South America have upended the United States' historical -- and often misguided -- tendency to lump the region into a one-size-fits-all policy. A politically and economically muscular Brazil, the rise of an anti-American bloc of countries led by Venezuela, and the emergence of economic and even political extraregional rivals in the hemisphere have created a more diverse, independent and contentious region for the United States.

At the same time, the looming shadow of a double-dip U.S. recession and the spectacle of partisan intransigence leaving Washington paralyzed have led to an overwhelming impression across the region that the U.S. is broken and in decline, economically and politically. Combined with the fact that the past two administrations in Washington have often struggled to pay consistent attention to the region and failed to stay ahead of trends, this has led many to declare the end of U.S. influence in the Western Hemisphere.

But the reports of the United States' demise have been greatly exaggerated. Economically and politically, the U.S. remains the leader in what is admittedly a much-changed, more assertive region. What is now necessary, however, is a long-overdue rethink of U.S. policy toward South America.

For the past 12 years, U.S. policy has at times looked irrelevant and contradictory. Though the Bush administration recalibrated its approach to the region in its final three years, for the first five it focused on a Manichean separation between allies and enemies, almost obsessively focusing on Cuba and President Hugo Chávez in Venezuela, while alienating other governments and complicating efforts to build regional support for its goals. Promises of partnership made early in President Barack Obama's administration were intended to provide a welcoming counterpoint to the early Bush years, but they fell victim to lack of leadership and follow-through. The most obvious case has been the administration's three-year delay in presenting the U.S.-Colombia and U.S.-Panama free trade agreements negotiated under Bush to Congress for ratification -- a sad sign of lack of policy continuity across administrations in what should have been a consensus initiative.

Meanwhile, South American countries have not stood around waiting for the United States to fill the resulting void. Economically within the region, the U.S. has been losing market share. In 2011, China replaced the U.S. as the major trading partner for Brazil and Chile. At the same time, China has signed free trade agreements or trade deals with Chile, Peru, Cuba and Costa Rica, while providing a series of concessionary loans to Venezuela and Ecuador. Even Washington's greatest South American ally, Colombia, has refused to wait, signing a free trade agreement with Canada and launching negotiations for a free trade agreement with China.

The resulting market diversification, including the growing presence of China and India, has served South America well. From 2007 to 2010, according to the World Bank, economic growth in 10 countries in South America -- Colombia, Venezuela, Brazil, Paraguay, Argentina, Uruguay,

Chile, Peru, Bolivia and Ecuador -- averaged 4.7 percent, a rate all the more surprising when compared to the United States' anemic 0.5 percent during the same period.

Diplomatically, the United States has lost political clout as well. The U.S. currently is without ambassadors in Venezuela and Bolivia. The pariah state Iran has also made headway in the region, developing diplomatic and economic relations with Brazil, Venezuela, Ecuador and Bolivia. And Brazil has demonstrated itself a rival globally and in South America, asserting its power in cooperation with other developing economies in world forums while challenging U.S. regional influence in a new subregional grouping, UNASUR, from which the U.S. is excluded.

But the region's average growth rates, political solidarity and gradual sidelining of the U.S. mask significant divisions. On the one hand, there are the pro-market economies of Brazil, Chile, Colombia, Peru and Uruguay. On the other are those that approach the market with a mixed attitude at best, like Argentina, or else with a cynical and even antagonistic one, as do Bolivia, Ecuador and Venezuela. For all the rhetoric of regional political convergence and economic cooperation and integration, both sets of countries are on profoundly different trajectories, and the differences will only deepen over time. As for extraregional actors, there are significant differences in terms of their impact on particular countries. All of that means that on the whole, hyperbole has obscured the continuing and almost ineluctable importance of the United States in the region.

THE CHINESE FIESTA

On average, in the past five years, South America has grown at Asian Tiger-like rates. From 2006 to 2010, Peru's economy increased by a compounded 14.5 percent, averaging more than 6 percent growth per year. While not as torrid as that of Peru, Chile grew on average 3.6 percent per year during the same period and Colombia by 4.6 percent. Brazil, now the world's seventh-largest economy and expected to be the fifth-largest by 2016, grew at an average yearly rate of 4.2 during the same period -- though it is expected to settle down to around 3.5 percent in 2011. And with the growth has come foreign direct investment (FDI), which in 2010 grew by 40 percent from a year earlier, outstripping even the pace of FDI to developed economies.

More than the economic growth, the fact that much of South America appears to have avoided or bounced back quickly from the 2009 Great Recession in the United States has added to this sense of having "arrived." Economic growth in Peru, Chile, Colombia and Brazil in 2009 was at or near 0 percent, as opposed to the long-term negative rates that many were predicting shortly after the collapse of Lehman Brothers. More important, the decline was short. According to the World Bank, in 2010 Peru grew by a rate of 8.8 percent, Chile by 5.2 percent, Colombia by 4.3 percent and Brazil by 7.5 percent.

In large part, the speedy recovery was the result of two decades of market-oriented economic reforms that had opened up the countries for foreign investment, controlled inflation, reduced tariff barriers, established fiscal stability and dramatically reduced public-sector debt. If this seemed to vindicate the much-maligned Washington Consensus, no one dared say so.

While economic and institutional reforms laid the groundwork, the fuel for this unprecedented, recession-defying growth came from China's demand for raw materials. China is the largest importer of goods and services from Brazil and Chile, and the second-largest from Argentina and Peru, according to the U.N.'s Economic Commission on Latin America and the Caribbean. But although Chinese demand helped Latin American year-on-year export growth to increase to 44.8 percent in the beginning of 2010, 87 percent of China's purchases from Latin America generally are raw materials or commodities with little value added.

Not all Chinese activities focused on raw materials or on trade, however. Currently Brazil and China are collaborating in the development of satellites, and China's relationship with Venezuela, Ecuador and Bolivia -- South American members of Chavez's Alianza Bolivariana para los Pueblos

de Nuestra América, or ALBA -- has been much more of a political partnership. Chinese development aid to Latin America, which is estimated to be $600 million per year, has included refineries, rail lines, roads and ports, with the bulk going to the ALBA countries.

In addition, China has provided generous loans to finance development projects in exchange for energy supplies. The most recent, signed this year, was a $4 billion oil-for-loan deal with Venezuela that topped up the $32 billion in existing lending that the Chinese have already provided to the Chávez government. Venezuela currently sends 400,000 barrels per day to China and hopes to raise that to 1 million in 2012. And under another recent agreement, Ecuador, which had already received $6 billion in loans from China, is obliged to provide 39,000 barrels of crude and fuel oil per day over two years to PetroChina Co. under the terms of a $1 billion loan.

But China's higher profile across the region has come at an economic cost as well. As much as China is consuming vast amounts of resources and maintaining commodity prices high, Chinese-produced textiles, footwear, electronics and low-end consumer products compete with South American goods globally and in domestic markets, particularly affecting Brazil and Argentina. Moreover, there is also evidence that China is engaging in dumping.

The extent to which this economic clout has translated into Chinese political influence is debatable. Certainly, China has a multitrack diplomatic, political and economic strategy for easing itself into South America and winning friends. It has funded local business councils and study centers, sponsored cultural trips and conducted joint military training operations. Chinese President Hu Jintao has visited the region twice, in 2008 and last year, traveling to Brazil, Venezuela and Chile. In contrast, U.S. President Barack Obama has only traveled to South America once, earlier this year when he visited Brazil and Chile.

None of this constitutes a coordinated effort to bring Latin America firmly under China's orbit, nor is it a direct threat to U.S. strategic interests. Nevertheless, the cooperation has been eased by the arrival of leftist governments in Argentina, Uruguay, Bolivia, Brazil, Paraguay, Venezuela and Ecuador -- though Chile and Colombia, under more centrist and even conservative governments, have also sought to strengthen ties to their advantage.

Instead, the challenge to the United States is more indirect.

First, China's remarkable ability to drive the global economy has created another pole that has balanced power relations in the hemisphere. As their domestic economies have grown and export markets have diversified, countries across the region have become more economically and politically independent. Parallel to this, Washington's foot-dragging in sealing the free trade deals with Colombia and Panama combined with its lack of a practical vision to extend or consolidate trade relations beyond those two agreements have reduced U.S. economic influence. Recently concluded investment agreements and treaties with Uruguay and Brazil are important, but they don't provide the sort of leverage that FTAs do. The net result of the region's increasing economic diversification and independence has been to reduce the tools that the U.S. has typically used to advance its policy interests with South American countries.

Second, extraregional forums such as the G-20, the BRICS grouping and the IBSA grouping have provided global forums for the region's emerging powers, offering a way to break out of the United States' shadow and stake out positions with other developing countries in areas such as U.N. Security Council reform, negotiation over Iran's nuclear program, Palestinian membership in the U.N. and the directorship of the International Monetary Fund (IMF).

As the U.S. finds a dwindling number of economic and diplomatic leverage points in the region, South America's emerging powers have become a political thorn in the side of the United States. The effort by Brazil in this regard has to be understood primarily as a long-held strategy of addressing the perceived global imbalance tilted against the global South in order to correct past

injustices and to reinvigorate and reform multilateral institutions. What we have seen so far is only the beginning of such efforts. The discovery of a potential 5 billion to 8 billion barrels of oil in Tupi, one of the pre-salt fields off the coast of Brazil, have only served to bolster Brazil's sense of economic arrival and its desire to assert itself as a new global power.

Last, the China windfall has emboldened countries such as Venezuela that have aligned themselves against U.S. interests and influence in the region. High oil prices and Chinese investments have allowed Chávez to buy regional allies through the distribution of oil at favorable rates in the Caribbean and Central America, and to support his Bolivarian projects in ALBA allies. Such an aggressive economic and political challenge to the U.S. is made possible in large part by Chinese demand and largesse, which has buoyed failed economic policies and allowed the Chávez government to avoid paying the price for its many policy mistakes -- though U.S. consumption of Venezuelan oil has certainly helped, too.

Indeed, despite all the talk of the South American economic miracle, Venezuela, Bolivia and Argentina are struggling in ways that until now exports to China have managed to cover over. But cracks in their economic models are beginning to show. After nationalizing more than 100 companies, including supermarkets and food distributors, and breaking into central bank reserves to expand massive public patronage programs, Venezuela is facing food shortages and inflation of close to 30 percent for the third year in a row. From 2008 to 2010, the Venezuelan economy contracted by an average of 0.1 percent per year, compared to growth of 3.1 for its neighbor Colombia. While Bolivia continues to grow at a strong clip -- 4.2 percent in 2010 -- it is struggling to attract new investors for future gas exploration after having nationalized gas wells in 2006, raising concerns about the sustainability of the current uptick. And in Argentina, despite an agricultural boom fueled by Chinese consumption -- China buys approximately 90 percent of Argentina's soy products -- inflation is forecasted to approach 25 percent in 2011 for the third year in a row.

CHÁVEZ'S FADING PRESENCE AND UNASUR'S RISE

For all the handwringing in 1998 about Chávez representing a potent, new radical pole committed to undermining U.S. influence, 13 years later he has become not only an example of what to avoid but also a caricature.

By the time Chávez announced that he had cancer in June, the regional ambitions of his "Bolivarian Revolution" already appeared to have faded. With three years of negative or near-zero growth, inflation at more than 30 percent, food shortages and a unified opposition, Chávez had lost his regional luster, if not his hold over Venezuela. According to the 2010 regional Latinobarometer survey, only 33 percent of citizens in Latin America had a favorable impression of him. Though he still retains substantial popular support in his own country, where close to half the population viewed him favorably, that number was less than 30 percent in Chile, Brazil, Peru and Colombia.

The decline of the Bolivarian project does not mean Venezuela is no longer a threat, just that it is a different kind of threat. Chavez's systematic gutting and corruption of the state in Venezuela -- including the judiciary, local governments, police forces and the armed forces -- have left an institutional vacuum. With it has come soaring crime, making Caracas the murder capital of Latin America and turning Venezuela into a major transshipment point for Colombian drugs headed to Africa and Europe. In August, the U.S. Treasury added four more Venezuelan officials to its list of individuals involved in drug dealing and arms trafficking. That list, now totaling seven, includes the government's top military commander, the army's head of intelligence and a former interior minister.

The threat that Venezuela represents today, for its citizens and its neighbors, is not that of an attractive alternative but as a failed state containing a variety of dangerous elements, including military officers allied to narcotic traffickers, Iranian and Cuban spies and illicit businesses. The worrying levels of criminality inside Venezuela and the real threat of collapse require Washing-

ton to work quietly to build a regional coalition to support moderate institutional actors within Venezuela, while not triggering the antagonism of the ailing and increasingly volatile Venezuelan leader.

In the past, the Organization of American States (OAS) could have potentially served this role. But under the erratic leadership of its current general secretary, Jose Miguel Insulza, the regional body has lost its way. Into this void has stepped UNASUR, a new grouping of South American nations. Supported largely by Brazil, the 12-member organization represents a smaller arena in which Brazil can assert its influence outside the reach of the United States or Canada. Focused primarily on issues of interstate relations, the presidents of UNASUR member countries have met a total of three times, including one emergency summit called to discuss Colombia's decision to grant the U.S. controversial military basing rights in 2009. Although UNASUR originally started as a political grouping, in March it announced its plans to integrate the countries economically.

Ultimately, though, UNASUR will likely fall far short of its members' starry-eyed goals, for a number of reasons. First, the bloc as yet has no organizational structure or normative, legal framework. It has until now served primarily as a convener of summits and forums, with very limited activity between. Second, the political differences among the members remain significant, and some members, particularly Bolivia and Venezuela, have already demonstrated their intention of using UNASUR as a political platform rather than as a serious diplomatic or economic forum. Last, there are the economic discrepancies within the proposed union, which would include the continent's richest country, Brazil, and its poorest, Bolivia. Moreover, its members have dramatically different economic interests: In 2008, 60 percent of Paraguay's and 80 percent Bolivia's exports went to UNASUR countries, compared to only 20 percent of Brazil and Colombia's for the same year.

Officially, the U.S. government says that it welcomes the formation of subregional groupings that will allow countries to resolve problems themselves. And indeed there is little need to overreact to UNASUR. Nevertheless, by the nature of its genesis and organization, the forum represents a competing arena for the resolution of local conflicts, from narcotics policy to economic policy to Venezuela, that affect U.S. national interest -- and that previously were the domain of the U.S.

NEW DIRECTIONS

How should the United States recalibrate its South America policy? For one, in the run-up to the 2012 Summit of the Americas to be held in Colombia, the Obama administration needs to jettison the vague, "feel good" talk of partnership that it used when he first traveled to the 2009 summit in Trinidad and Tobago. In the current context, such rhetoric sounds not only hollow but cynical: U.S. partnership never really came to fruition, whether it was in free trade agreements, establishing a resolution to the 2009 Honduras coup or in global forums such as the U.N. or climate change negotiations. The issue has been and should be leadership. Only now, the U.S. needs to select issues of common interest that it can lead on.

Two of these should be free trade and energy. In both issues there is a clear economic and political logic for the U.S. to engage South America. Doing so will leverage the United States' enduring strength: its high-end market. While economic growth may be limping along, with 300 million people and a per capita GDP of $47,184, the U.S. remains the most important economic market in the region and the world. For all the revenue-generating reality of China's growth, the United States' size and income makes it the sort of market for manufactured goods, technology exports and services that South American economies must access in order to move up the global value chain. And despite Obama's claims to the contrary, the U.S. will remain a net importer of energy for the foreseeable future.

The goal in both trade and energy should be to establish cross-border connections with individual countries that can leverage the United States' market advantages. This means working with countries bilaterally to harmonize regulations, establish investment agreements and develop infrastruc-

ture, while convening the current free trade partners the U.S. has -- NAFTA, CAFTA-DR, Peru and Chile, as well as Colombia and Panama should Congress ratify their FTAs -- to create a more seamless market for goods, services and energy that combines all their comparative advantages. As they exist now, these individual agreements and treaties are a spaghetti bowl of regulations, set-asides and laws. Combining them will establish a broader market that would include just less than 600 billion people. Along those lines, the United States must recommit to the Trans-Pacific Partnership (TPP). Intended as a forum for coordinating trade relations between Pacific Rim countries in the Western Hemisphere and Asia, the TPP, when combined with the harmonization of existing trade agreements in the hemisphere, could provide a platform for creating a broad, lucrative market spanning the Pacific that could include South Korea, Singapore, China and Vietnam -- with the potential of more to join, including even Brazil.

The same is true of an energy-related hemispheric initiative. Remarkable natural endowments in energy -- from oil to gas to hydropower to wind to ethanol -- exist from Canada to Chile. Until now they have never been harnessed, in large part because of conflicting regulations, political disputes and infrastructural bottlenecks. Through the promise of its energy-hungry markets, the United States can start to create a fast track for resolving the regulatory thickets that exist among countries. Such an effort would also spur private and multilateral investment in infrastructure in what would be an extremely attractive market.

Doing all this, though, requires recognizing and responding to the differences that have emerged across the region. Developing an evolved policy for South America demands a nuanced understanding of the multiple interests of individual countries, in order to build alliances with economic and civil society actors and craft discrete initiatives that respond to particular needs. Focusing on trade and energy across borders to create markets that are greater than the sum of their parts will help in that effort and expand the United States' economic leverage.

Placing the economic incentives front and center will also help to re-establish the logic of the U.S. in modern South American politics at a time when U.S. diplomacy and political allure matter less, but remain potent. Ultimately, for all its promise, UNASUR still lacks an organizational base and a diplomatic-normative framework to serve as a long-term alternative forum free of the United States. For this reason, the United States can and must play a strong diplomatic role in the region, prodding South American governments to action; working with them to address issues that affect their and U.S. interests -- including narcotics production, transnational crime, security and potential regional conflicts, to name a few; and, yes, to occasionally serve as a convenient foil for governments that want to raise a sticky issue but would prefer not to take the lead.

It may take some time for the region to recognize the importance of the U.S. in such economic and diplomatic functions. Most likely that recognition will come after the halcyon days of China-fueled growth fade and the differences between those countries that have pursued more-responsible policies and those that have squandered the commodity boom become sharper. But it will come. Even before it does, the United States, whether in subregional or global politics, needs to adapt to the new dynamics in the region. This will mean dispensing with the hackneyed assumption that regional players will always follow the interests and demands of the United States and reasserting the hard economic and political logic of influence. The age of rising rivalry and prickly partnership has arrived. □

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Lina Salazar conducted research for this article, read earlier drafts and provided extensive comments.

Photo: President Barack Obama is greeted by Brazilian President Dilma Rousseff, Brasilia, Brazil, March 19, 2011 (White House photo by Pete Souza).

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