The ongoing and unprecedented speed of global change demands a new responsibility from Latin American countries: if they are to govern more effectively they must anticipate change and think in the long term.

Across all policy areas—economic, social, technological, political, military, climate change, and immigration—global transformations are increasingly affecting the well-being of nations. Success will come to those best able to prepare for and design long-term strategies. The same holds true for international policy and, in particular, for future relations with the United States.

President Barack Obama’s 2011 visit to Brazil, Chile and El Salvador generated both favorable and critical reactions that did not, in my view, adequately capture the magnitude of the changes underway that will shape the future. Nor did they correctly reflect the type of relations between the United States and Latin America that could characterize the coming decade.

This paper discusses four distinct issues: the new global reality that will frame US-Latin America relations; the new approach that could emerge in the United States; the possible paths for Latin America; and, potential areas of collaboration between the United States and Latin America.
The New Global Reality

Over the last decade, the United States has had to adjust to the relative decline of its global power. Its future influence will be subject to greater economic limitations. Latin America, meanwhile, with the exception of a few countries, has emerged from a decade of good governance in a stronger position. The region generally enters the next decade in favorable circumstances for continued development.

In speeches in the three countries he visited, President Obama recognized the emergence of a new multipolar world. As in Egypt and India and at the 2009 Summit of the Americas in Trinidad and Tobago, he proposed new alliances for the pursuit of global governance and, as a result, new partnerships among countries. Speaking in Santiago to the entire region, Obama used the word *partner* or *partnership* 24 times and repeated a phrase he had said in Trinidad: “There are no senior partners and there are no junior partners, there are only equal partners.”

Obama’s vision clearly differs from that of his predecessor. While President George W. Bush employed similar terminology, he carried out a markedly unilateral and militaristic policy based on the premise of a hegemonic power, which was divorced from the current reality. The data supporting this new reality are eloquent. The United States has accumulated an unprecedented debt that will limit its ability to wield global influence for many years, particularly in the coming decade. The recent financial crisis deeply shook the US economy and the international financial system, raising questions about the capacity of the United States to properly regulate its banking and financial sectors. The US military is over-extended, fighting wars on three fronts at the same time, and seems uncertain about how to deal with Chinese expansion.

Against this backdrop, the US administration appears to be advancing a new vision, one that maintains that the country will continue to be the leading power—but its power relative to others will decline. This vision recognizes that military muscle alone is not enough to maintain order, spread US values, and advance strategic interests. Instead, it reaffirms that the basis for renewed US power lies in the strengthening of a competitive economy, which is the only way to sustain its global influence.

For such a concept to take hold greater austerity in the US domestic economy will be required and new alliances to regain influence will need to be pursued. That thinking was reflected in President Obama’s State of the Union address in January 2011.

Meanwhile, emerging economies keep upsetting the balance of economic power. In a February 2011 talk at the Carnegie Endowment for International Peace in Washington, Indian economist A. Virmani projected that the size of China’s economy (measured by per-capita income, adjusted for purchasing power, and multiplied by the population) would overtake that of the United States by 2020, while India and Brazil would surpass Japan and France, respectively, by 2015, and Russia would surpass Germany shortly after 2020.

China keeps growing at a pace that shows no signs of slowing. Its saving rate is more than 40 percent, the world’s highest. Its consumption level in recent years has been less than 40 percent of GDP, while Europe’s is 60 percent and the United States’ exceeds 70 percent.
Its domestic market has a tremendous potential for growth, fueled by the rapid expansion of the middle class. The domestic market and strong public spending enable China to protect itself from the vagaries of external demand and keep growth rates up. That middle class will keep driving demand for commodities and food, along with new goods and services. China’s economy is nimble and competitive. In this decade, it risks a slowdown only if growing pressure for a political opening and more freedom and participation prove unmanageable for the ruling Communist Party.

India, likewise, is seeing continued growth that will make it a stronger influence in global and hemispheric affairs. In this context, it is plausible that in coming years Latin America will continue to move towards Asia. After all, Asia’s share of new global demand will be greater than those of the advanced economies, and the region will also offer new export markets and investments in Latin America.

The two giants—China and India—will join Brazil, Russia, Indonesia, and Turkey in posting growth rates that exceed those of the developed nations and therefore accounting for a larger share of world GDP.

The world that is taking shape will be multipolar and more interconnected and interdependent than ever before. The United States will be its largest shareholder, though a minority one—and it will have to come to terms with these new circumstances. Latin America, for its part, faces a new window of opportunity that it should take advantage of. It is well positioned for a forward push to pursue substantive reforms in the coming decade. The United States cannot underestimate the importance of a region whose current population of 500 million is expected to reach 600 million by 2020.

National differences aside, Latin America’s democracies have spread and will continue to deepen. The progress achieved should be viewed in light of the changes underway in the Middle East. For the most part, Latin America has little risk of armed conflict among countries. Its key challenge is to defeat the violence and organized crime that threatens democratic institutions, especially in northern Central America.

Latin American economies have grown and diversified. In recent years their governments’ macroeconomic management has been more responsible and effective than that of the developed countries. Most nations have made significant strides in reducing poverty, although serious inequalities remain.

Speaking at the Center for Strategic and International Studies on March 18, 2011, Secretary of State Hillary Clinton emphasized just how important Latin America has become for the United States. More than 40 percent of US exports go to the region; the United States sells more to Chile and Colombia than to Russia; and Brazil is a global power with a growing economy and deepening democracy that will play a greater role in the energy field. Clinton underlined that geography was an important factor to maintain and improve the close link between the United States and Mexico and Central America, to work jointly with new initiatives to address serious crime and drug issues.
New US Approaches

“A National Strategic Narrative,” a recent report by two active service US military officers writing under the pseudonym Mr. Y, reflects the new argument to maintain US global influence. There is confusion over and disagreements about how to address the new situation.

Since the fall of the USSR, the United States no longer faces the kind of enemy that would help define a national security strategy to order priorities. Although the Japanese challenge in the 1990s surprised many, it had neither the size nor the military might to cause concern. China, a large, highly competitive economy with global reach in all areas, poses a different kind of challenge.

The United States’ unquestionable military power can only be used under very specific circumstances. Moreover, it is very costly to be the world’s policeman. To remain competitive and sustainable, the United States will have to shift its efforts toward innovation and domestic investment in order to exert global influence and finance its technological and military superiority.

The wide range of powers that is emerging—by region and issue—requires flexible and diverse alliances that are underpinned by economic and technological capacities and credible values.

Economic thinking about development has also been changing. Even the World Bank, an institution that has traditionally embraced the economic logic espoused by the so-called Washington Consensus, has shifted its emphasis. Speaking in 2011 at the Peterson Institute for International Economics, World Bank President Robert Zoellick said that a market economy and sound macroeconomic management are not enough for development. He said the criteria to select and implement programs and projects should not only include economic aspects, but social (poverty reduction) and political (citizen participation) dimensions as well. Also critical are institutional reforms that foster accountability and transparency.

These ideas will gain an influence in Latin America if they are consistent and repeated enough. Indeed, citizens armed with new interactive communication technologies will increasingly challenge control exercised by ruling Latin American elites, demanding greater openness and participation.

As communications technology grows by leaps and bounds, the United States is also experiencing greater exposure to foreign issues. International problems once far removed from the average US citizen now have a direct impact and are increasingly the subjects of domestic debate.

Conservative sectors tend to see the expansion of other countries as a threat and react either by clamoring for hardline policies or urging isolation. Liberals with ties to organized labor, on the other hand, demand stricter labor and environmental standards in free-trade agreements and insist that they be closely monitored. It is likely that future
US–Latin America relations may be more subject to US domestic interests and pressures than in the past.

Latin America should closely follow the evolution of global economic and political developments, including what happens in the United States and Chinese behavior. Relations with the United States will take place in a global, not a hemispheric, context.

**Latin American Paths**

Future US–Latin America relations will hinge on development strategies and goals proposed by countries in the region. The driving forces of the future will depend on internal factors—areas of specialization and people’s aspirations—and on global processes of change that each country will have to adapt to and take advantage of. Setting a long-range strategy and defining priorities are the principal tasks facing each Latin American nation. Only then will it be possible to clearly identify and pursue areas of collaboration.

Latin America’s strategic thinking is poor. Short-term views have usually prevailed over longer-term visions that help set ambitious goals and objectives and seek internal pacts to achieve results.

When one compares Latin America’s development with those of successful Asian countries, what stands out are the economic and social weaknesses that slow the region’s growth: inequality, low productivity, low savings rates, ideology, lack of ambition, and absence of a vision for development. Asian experts’ analysis of the future of Latin America is instructive. High levels of violence in the region are also striking.

Still, the current decade is promising for Latin America. External factors will provide more markets, better prices, and foreign investment. The economic and political situation in most countries is more solid than in the past. It is time to move decisively on fundamental reforms.

Will Latin America be able to avoid the so-called “middle-income trap”? Various countries are able to reach per capita incomes of between $10,000 and $15,000 (measured by purchasing power parity), yet few have gone beyond that range to achieve higher levels. Brazil seems to be the only case going in this direction.

**What Is Needed?**

One of the most important decisions for Latin America is how best to take advantage of the favorable circumstances. It is crucial to manage intelligently the expansion of export income from natural resources. Current favorable circumstances—the product of high mineral, fuel and food prices, abundant capital flows to the region, and a recovering global economy—present twin risks: complacency and the populist temptation.

Both can bring undesired effects. Mismanagement of the economy, excessive consumerism, and unchecked fiscal expansion may lead to overheating, inflation, and then a
Current favorable circumstances present twin risks: complacency and the populist temptation.

Two guidelines are essential to pursue a course that avoids both risks. The first is to apply an economic policy that protects the domestic economy from frequent global volatility (e.g., stabilization funds financed by export revenues, disincentives to short-term or speculative capital). In mismanaged economies, abrupt variations in foreign exchange can harm the productive capacity in alternative export sectors (i.e., Dutch disease) or delay the upgrade of services that are crucial to increase productivity.

The second guideline involves using export revenues to invest in the renovation and specialization of the productive structure. To do this well will call for going beyond the false dilemma between the export of commodities vs. goods and services. Instead, it is vital to act on both those fronts. Since the outlook for global growth means rising demand for minerals, energy, and food supplies, producer countries have no other option but to boost productivity, incorporating high technology and offering greater value-added. Such a comparative advantage should be used as leverage to open up opportunities for new areas of specialization, expert training, and technological research.

The combination of policies will vary depending on the country, as seen in the cases of Mexico and Brazil. Mexico, which is more closely tied to the US economy and other developed countries and exports fewer natural resources, will have a more limited space for growth than Brazil in coming years. As a recent Inter-American Development Bank (IADB) report notes, Brazil will grow faster because it sells less to industrialized countries and has larger mineral, energy, and food products available for export to Asia.

Still, nothing is predetermined. It is clear that the future will be decided by the changes pursued by each nation. Mexico could undertake reforms and introduce incentives to increase its oil and agricultural output, both in high demand globally. It could also improve its connections with the US economy, which might yet exceed recovery expectations.

**Essential Priorities for Latin America**

Which policies and international agreements could be most fruitful in helping countries both specialize in high-tech natural resource production while at the same time diversify into more sophisticated sectors?

Education and infrastructure are two priority areas for development—and Latin America can avail itself of foreign assistance in both. In education, some countries need to guarantee K–12 coverage, and all of them need to improve quality. These are domestic tasks, but foreign support can help narrow the gap in areas such as graduate studies and technological research. President Obama’s proposal to increase the number of US graduate students in Latin America to 100,000—and also increase the number of Latin Americans studying in the United States by the same number—can play a key role in launching ambitious initiatives of cooperation.
Infrastructure is the second major challenge. It is estimated that Latin America will need US$1 trillion for infrastructure improvements in the coming decade. In addition to fiscal resources, better infrastructure will require growing support from the IADB, CAF, and other international financial institutions, along with private contributions through concessions or international businesses. China could become an even more relevant actor in the region if it decides to complement its search for commodities and food with investments in infrastructure and other industries.

Energy is another critical area. The United States will need to secure supplier arrangements with Latin American oil producers, while Latin America will need markets, along with investment and innovation in biofuels and renewable energy, especially solar. On renewal energy and environmental questions, it would be fruitful to pursue technology transfers and joint research initiatives.

The intense relationship with Asia will increase the importance of the South Pacific and will demand better infrastructure and services. The Trans-Pacific partnership should provide Latin American APEC members with new opportunities for coordination with the rest of the region and the United States.

Though each country’s path will be different, there are shared priorities. These include: education, science and technology, infrastructure, productivity, specialization, social inclusion, equal opportunity, strengthening of democratic institutions, and citizen participation.

Education and infrastructure will provide the human and physical capital. Better services and new technologies will help increase productivity. And an emphasis on renewable energy will increase exports in more environmentally friendly ways. The strongest performers will be those that make a big bet on changing production structures to achieve the green economy of the future and that forge Korean-style public-private partnerships.

The task ahead is complex. Neither good macroeconomic policies nor growth alone are sufficient. Absent greater equality, protection, and social inclusion, success will remain elusive. Sustainable growth is not possible in countries marked by inequalities in income and power and that lack national unity and self-confidence. Greater social mobility, an emphasis on merit, and equal opportunity are preconditions for tackling ambitious challenges and avoiding the middle-income trap. This task will demand tax reforms that generate resources to provide public goods that will increase national well-being and productivity, which go hand-in-hand.

In the new stage of Latin America’s development, strengthening institutions and broadening citizen participation are other prerequisites for success. Although our democracies are marked by periodic elections, it is now crucial to expand citizen participation, enlarge the role of civil society, and guarantee transparency in government. In some South American nations, democratically elected executives bent on staying in power have attempted to subordinate independent institutions. In Central America and Mexico, organized crime undermines the governments and the democratic system. This scourge is draining national energies; defeating it is a collective task. Installing a democracy and
In this global context, the United States will be closely following events in Latin America—as a market, an energy supplier, and a region with which it shares problems and opportunities.

Living in peace is considerably harder than implementing sound economic policy. And without democratic institutions, economic policy is not sustainable.

Active involvement in global governance should also be a priority for Latin American countries, especially medium-sized and smaller ones. In a multipolar world, it makes sense for Latin America to support multilateralism and participate more actively in global governance. In the coming years, Latin America should seek a larger presence in the G–20, the International Monetary Fund, the World Bank, and the United Nations. Unlike larger countries, each of the small and medium-sized countries will not be able on their own to influence the international issues that concern them. Joint action to reform multilateral agencies is, therefore, crucial to the defense of their national interests.

Each country will have to reinforce its strategic thinking and look at the medium term to identify the vital reforms that improve the well-being of its citizens.

New opportunities for US-Latin America Relations: Which Partnerships?

To prepare new partnerships it is important to have in mind the three processes already reviewed: prevailing global trends, US government policies and the status of the US economy, and priorities that Latin American governments are ready to carry out.

The United States faces years of constraints. It will have to devote greater resources to preserving the competitive and technological edge that is critical to maintaining its influence.

It is likely that Latin America—especially South America—will continue to multiply its exchanges with Asia over the next five years. Rates of investment and the expansion of the middle class in China, India, and other middle-income countries will drive global growth through expanded domestic consumption. Latin America will account for a larger share of the demand for products than industrialized countries.

In this global context, the United States will be closely following events in Latin America—as a market, an energy supplier, and a region with which it shares problems and opportunities. Most US attention will focus on Mexico and Brazil, albeit for different reasons and with different emphases. Mexican markets, oil resources, and migrants have a strong impact in the United States. Mexico and the United States need to work closely together in combating drugs and organized crime. Brazil will draw high levels of US attention because of its rising global role, expanding market, industrial progress, and the production of oil, food and biofuels.

Immigration will continue to be necessary for the United States to sustain its growth. Negative aspects of immigration tend to grab the spotlight, but the fact remains that Latin American immigrants make a major contribution to the US economy. A recent report projects that the US population will increase from 310 million in 2010 to 370 million in 2030, half of it as a result of immigration. This would make the United States the only industrialized country to have population growth through 2030.
Leaving aside Brazil and Mexico—whose size will make them increasingly important actors—the rest of the countries should cooperate and coordinate with one another more effectively to have some influence on global political and economic trends. The expanding role of Brazil and Mexico is guaranteed by their sheer size. But smaller Latin American countries must seek closer cooperation and coordination to enhance their influence. Each will take the initiative and seek mutually beneficial arrangements with the United States. As a start, three areas are worth pursuing: democracy strengthening; energy and climate change; and education, science, and technology.

**Democracy Strengthening**

a) In Central America, collaboration could bolster the fight against organized crime, improve citizen security, and strengthen democratic institutions. The United States has proposed a Central America Citizen Security Partnership. High levels of drug consumption and arms sales to countries south of the border give the United States a special responsibility in this regard. Mexico and Colombia can also make an important contribution, while South America can cooperate in security, crime investigation, police training, and other initiatives.

b) South American nations should get more involved in providing assistance to Haiti.

c) The region should also offer support to help facilitate a transition to democracy in Cuba. Despite the steps taken by the Obama administration regarding visits and remittances, the ineffective US embargo continues with no end in sight. For Latin Americans, it will be important to have conditions in place for a peaceful transition when Cuban leadership changes. It is helpful to encourage some processes underway in Cuba, such as the release of political prisoners, improved freedom of expression, and economic reforms, which could pave the way for a democratic opening.

**Energy and Climate Change**

Although President Obama has spoken about an Energy and Climate Partnership of the Americas, its content, priorities, goals, and resources remain unclear.

a) There are opportunities for collaboration in developing renewable energy sources, especially solar, and assisting with nuclear plant safety and ethanol, cleaner coal, and natural gas research.

b) Partnership with the United States could also help Latin America reduce CO₂ emissions, protect tropical and temperate forests, and safeguard glaciers and water resources. Latin America abounds in natural resources and must take measures to protect them.

c) Climate change and increasing concentration of the population will intensify the impact of natural disasters. Emergency preparedness requires effective institutions, first responder training, equipment acquisition, public education, and improved land use and construction standards. Latin American countries can take the initiative in these areas.
Education, Science, and Technology

Education, science, and technology help increase productivity and drive growth. Collaboration in these areas could focus on goods and services, with an emphasis on the use of information and communications technology. Latin American countries should propose innovative initiatives and explore areas of potential agreement, including:

a) President Obama's only quantitative proposal was to increase the number of US graduate students studying in Latin America to 100,000 and the number of Latin Americans studying in the United States to 100,000. To date, Asia has taken better advantage than Latin America of the academic excellence offered by US universities. New proposals designed to stimulate and fund these exchanges are needed. Chile's 2008 Becas Chile student aid program is a good example with much potential.

b) Joint research in areas of importance to Latin America should be expanded. These include renewable energy, especially solar, biotechnology, and collaboration between Latin American and US businesses and research centers. A Rand Corporation report identifies 16 technology applications that will change living conditions in this decade and notes that some Latin American countries will be able to adopt them if they carry out certain policies and make a sustained effort. And it is important to remember that proficiency in English is an essential tool in a knowledge-based society.

c) With respect to trade, the United States should move to eliminate barriers and open its market to Latin American products, especially foods. If WTO talks remain deadlocked, free trade agreements between the United States and Latin America should be expanded. There are serious political obstacles given the concern that such an approach would result in less employment in the United States. A more open global economy helps small and medium-sized countries whose development depends on exporting goods and services with increasing value-added.

The 24 references to “partner” and “partnership” in President Obama's Santiago speech should not remain empty talk. While some may interpret Obama's logic of partnership as a sign of disinterest, I believe it reflects the new reality within which the United States will have to function.

It falls to all Latin Americans to take a more active role in pursuing opportunities and demanding that the United States make a firm commitment to its proposed new partnerships.

Are Latin Americans prepared for this? Is there enough will in the United States to seek such partnerships? It is worth making a serious effort to see if this can work.

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