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What to Expect in United States Relations with the Rest of the Western Hemisphere Following the Fifth Summit of the Americas

By Thomas Andrew O'Keefe
(Mercosur Consulting Group, Ltd.)

The Fifth Summit of the Americas held in the Trinidadian capital (April 17-19, 2009) was an expensive Debutante Ball for President Barack Obama. Much of the tab will be picked up by the already beleaguered taxpayers of Trinidad and Tobago, whose government is scrambling to control a growing fiscal deficit as tax revenues from the country's dominant oil and natural gas industry plummet.

While Obama's performance in Port of Spain may have toned down previously tense relations with Venezuelan President Hugo Chavez, the Summit was a fiasco from a substantive perspective. This is underscored by the fact that none of the visiting heads of state even bothered to show up for the formal signing ceremony of the Final Declaration on the last day. Instead, a chagrined Prime Minister of Trinidad and Tobago was left to sign the document himself. In order to save face, he claimed he was authorized to sign it on behalf of the other 33 leaders, even though Venezuela and its *Alternativa Bolivariana para los Pueblos de Nuestra América* or ALBA allies (*i.e.*, Bolivia, Dominica, Honduras, and Nicaragua) had already made it clear going into the Summit they would refuse to sign any Final Declaration to protest Cuba's exclusion from the process. In any event, what Prime Minister Patrick Manning did sign was a document that had mostly been drafted months earlier and is remarkable for its failure to create any binding commitments to address many of the most pressing problems currently confronting the Western Hemisphere.

A Lost Opportunity for the United States to Exhibit Leadership

In many ways the fact that newly elected U.S. President Obama appeared in Port of Spain empty handed, unable to offer what the other governments in the Western Hemisphere really need or want, is understandable. The first months of his administration have been focused on trying to revive the imploding U.S. economy and resolve the Asian quagmires inherited from his predecessor in the White House. Furthermore, despite the fact that nearly 20 percent of Americans can now trace their origins to Latin America and the Caribbean, the region has never enjoyed the attention of Washington, D.C. unless it is threatened by real or imagined military threats from overseas or experiences a catastrophic natural disaster. The failure to look south for solutions to the ills that beset the United States today, however, displays a shocking lack of vision and imagination. For a candidate who promised change, President Obama appears to be set on repeating a painful pattern that has traditionally characterized U.S. relations towards Latin America and the Caribbean. The most telling sign is that more than 100 days after his inauguration, the United States still had no Assistant Secretary of State for Hemispheric Affairs.

The global economy is now engulfed in a deep recession, but the reasons and the degree to which countries are affected by it varies. In the case of the United States, the recession is intimately tied to the collapse in the value of real estate assets that were leveraged by large numbers of Americans to sustain a modicum of middle class life styles. Once the financial system is restored to reasonable health, the Obama administration will need to focus on reviving the domestic economy. It is an illusion to think that putting more money into the hands of all Americans---but for the poor---through rebates and income tax credits will entice sustainable growth.

The only viable option to get out of the recession without risking high inflation will be to encourage exports to countries that have large amounts of foreign currency reserves. Some of those countries are in South America and include Brazil. Given that developing countries such as Brazil are also projected to recover earlier than developed economies from the global recession by trading

needed commodities and cheaper goods among themselves, the United States will eventually need to look south to sustain economic growth at home by expanding exports of goods and services. That is not likely to happen in the absence of a genuine free trade agreement between the United States and South America's largest economies. Sadly, unlike all four previous Summits of the America that had focused on a proposal to create a Free Trade Area of the Americas, the Obama administration chose not to use the recent gathering in Port of Spain to propose any initiative to liberalize trade in the Western Hemisphere.

The Fifth Summit of the Americas also provided the perfect forum for discussing proposals for regulating migration among countries in the Western Hemisphere. This is an extremely important issue in the United States where an estimated 12 million undocumented workers and their families reside, the vast majority from Central America, Mexico, and the Caribbean. Whereas U.S. politicians have preferred to engage in demagogic distractions like building porous walls along the U.S.-Mexican border that do not actually attack the root causes of the problem, their counterparts in the Western Hemisphere have behaved much more responsibly. For example, the core member states of the MERCOSUR (*i.e.*, Argentina, Brazil, Paraguay, and Uruguay) plus associate members Bolivia and Chile have already devised ways to legalize undocumented workers and their families from any of the six countries that may find themselves in their respective territory.

A similar arrangement exists in the Andean Community (*i.e.*, Bolivia, Colombia, Ecuador, and Peru), whose member states are also committed to ensuring the free flow of workers within the trade bloc and access to social security benefits. Most of the fifteen countries within the CARICOM now permit among themselves the free movement of professionals, highly skilled workers, company personnel, and investors. Unfortunately, like trade, immigration was yet another crucial topic that was never even broached in Port of Spain.

The Feasibility of an Energy Partnership for the Americas

Given that two of the three official agenda items for discussion at the Fifth Summit of the Americas were supposed to be energy security and environmental sustainability, there was great speculation that the 34 leaders gathered in Port of Spain would agree to launch an Energy Partnership for the Americas. Although that did not happen, informal discussions between the United States delegation and representatives of some of the other governments in the Americas open the possibility that elements of this proposal could be implemented by interested countries in the near future.

An Energy Partnership for the Americas that includes free trade in fossil fuels is currently unworkable in an environment where some of the major producers in the Western Hemisphere such as Argentina, Bolivia, Mexico, and Peru do not use market mechanisms to set prices and/or restrict exports. In addition, free trade of alternative energy resources such as biofuels risks reigniting some of the same cleavages that scuttled the FTAA. For example, the United States currently protects its inefficient domestic corn-based ethanol industry with high tariffs of 2.5 percent *ad valorem* duty plus a surcharge of 14.7 cents per liter on imported ethanol, as well as restrictive volume caps. Although ethanol from Central America and the Caribbean is exempt from these barriers if made from local sugar (or from the tariff and surcharge---if not necessarily the quotas---if the ethanol is produced with imported sugar-based hydrous ethyl alcohol), the volumes exported from these countries to the United States are relatively insignificant. Instead the U.S. barriers are intended to keep out highly efficient and more environmentally sustainable sugar-based ethanol from Brazil. Furthermore, all imported ethanol, regardless of its origin, must contend with the fact that the United States heavily subsidizes its corn based ethanol industry, thereby putting imported ethanol at a competitive price disadvantage within the U.S. market.[1] Unfortunately the well documented waste of precious resources and negligible environmental benefits will not be enough to get rid of the corn-based ethanol boondoggle in the United States any time soon. The same vested interest groups and their congressional allies that have made it extremely difficult to dismantle tariff rate quotas and subsidies in the agricultural sector, despite all the strong economic and humanitarian arguments that favor such a course of action, are also at play when it comes to protecting the corn-based ethanol industry.

Although simply substituting trade in goods and services with energy resources will also not contribute to any type of hemispheric free trade accord in the short run, the establishment of hemispheric cap-and-trade program to reduce greenhouse gas emissions, similar to the Clean Development Mechanism that currently exists under the Kyoto Protocol to the United Nations Framework Convention on Climate Change, is more feasible. Under the CDM, carbon emission credits are issued to a developed country or its companies in exchange for financing projects in the developing world that reduce greenhouse gas emissions that would not have been built but for the foreign funding. The CDM has been utilized, *inter alia*, to build more expensive

thermal plants fueled by natural gas or hydro power to generate electricity instead of cheaper coal powered plants in the developing world. The credits received under the CDM can then be used to offset emission reduction targets in the developed country as mandated by the Kyoto Protocol. The United States was one of the few countries in the world that never ratified the Kyoto Protocol so any cross-border trade in carbon credits by U.S. based firms is voluntarily channeled through the Chicago Climate Exchange.

President Obama has stated that he is committed to not only establishing a domestic cap-and-trade program but also participating in any replacement treaty to the Kyoto Protocol. That new multilateral agreement will not take effect until 2012, however. In the meantime, the United States can use a hemispheric cap-and-trade system as a preparatory step for participation in a global mechanism. In addition, a hemispheric CDM would be less susceptible to the fraud found in the current United Nations administered mechanism.

Research conducted by two Stanford University law professors in 2008 found that a large fraction of the credits generated under the current multilateral CDM do not represent genuine reductions in greenhouse gas emissions as many projects that "reduce" emissions would have been built anyway and at a far lower cost as well.[2] Even worse, the current CDM creates a perverse incentive for developing countries to increase carbon emissions as a way of generating CDM credits that can then be offered to firms in the developed world desperate to find offsets for their pollution inducing activities.

The plethora of potential institutions in the Western Hemisphere such as the Inter-American Development Bank to oversee and/or administer a hemispheric CDM, the smaller number of countries involved, and the fact that many of the developing countries in the Americas are not major contributors to global greenhouse gas emissions, all provide enhanced guarantees that a hemispheric CDM would be less subject to the type of fraud and abuse found in its multilateral counterpart.

Another initiative that could fit well under the umbrella of a more modest or scaled down Energy Partnership for the Americas involves fomenting public-private partnerships open to all countries and firms from throughout the Western Hemisphere to develop environmentally friendly energy technologies.

As outlined in more detail in the *Blueprint for a Sustainable Energy Partnership for the Americas* prepared by the Centre for International Governance Innovation in anticipation of the Trinidad Summit, the public-private partnership approach gets around shortcomings such as the slow adoption and limited diffusion of innovative technologies when government research investment benefits single companies who retain exclusive licensing rights to market the product or service.[3]

Latin America and the Caribbean Are Now in the Driver's Seat

In many ways the distraction occasioned by the Bush administration's self- inflicted wounds in Afghanistan and Iraq were a Godsend for Latin America. It allowed governments to continue experimenting with homegrown economic models not decreed in Washington, D.C. Although many of these experiments will eventually end in failure, the inhabitants of these countries will at least experience their full cycle and be able to reach their own conclusions as to which policies ultimately best meet their needs. This is very different from past U.S. government behavior in the Western Hemisphere where utopian socialist experimentation was abruptly interrupted by U.S. intervention. Instead of policies being discredited after being allowed to run their full course, their purveyors became martyrs and heroes and any mistakes could be attributed to a failure to fully implement the model because of U.S. imperialism.

In addition to the economic experimentation that has reduced U.S. influence in the region, regional trade and investment patterns have also begun to shift. Whereas the majority of exports from Latin America and the Caribbean went to the United States before 2000, well under half do so now. For the largest economies in South America such as Argentina, Brazil, and Chile, trade with Asia, the European Union, or even the rest of Latin America far surpasses that with the United States. Companies based in the E.U. are now the largest foreign direct investors in the Southern Cone countries of South America, while Asian firms are increasing their presence.

While Latin America and the Caribbean are increasingly less economically dependent on the United States, the converse is not true. Nearly a third of all U.S. imports of crude oil and petroleum products come from Latin America and the Caribbean (versus 16 percent from the Persian Gulf). That proportion has the potential to expand in the future in light of recent discoveries of massive off-shore oil deposits in Brazil. Trinidad and Tobago is already the largest source of imported Liquefied Natural Gas.

The steady erosion of U.S. political influence in Latin America and the Caribbean is best exemplified by the

concurrent mid-December 2008 meetings of four different regional organizations in the northern Brazilian seaside resort of Costa do Sauipe. The four regional entities included MERCOSUR, the Rio Group (all the Spanish and Portuguese speaking nations in the Western Hemisphere plus Belize, Guyana, and Haiti), UNASUR (the Union of South American Nations), and the newly created Organization of Latin American and Caribbean States. Repeating a role MERCOSUR played in the 1990's to prevent the overthrow of a democratically elected government in Paraguay, UNASUR was mobilized in September 2008 to prevent a *coup d'état* against President Evo Morales in Bolivia. The United States was reduced to the status of an uncomfortable bystander, its own Ambassador expelled from La Paz for alleged complicity in the coup plot.

At the Rio Group session in Costa do Sauipe, Cuba was formally inducted as a full member. This follows Cuba's 1999 incorporation into the Latin American Integration Association (ALADI) and its membership in the new Organization of Latin American and Caribbean States. In contrast to President Obama's vow to continue a trade embargo older than he until political prisoners are freed and Havana takes concrete steps towards democracy, the rest of the Western Hemisphere has been pulling Cuba into regional frameworks to prevent any major political and economic dislocations the day the Castro brothers finally exit the stage.

Despite the undeniable erosion of U.S. economic and political power in Latin America and the Caribbean over the past decade, the United States will remain an important export market and source of investment and new technology for many decades to come. This is especially true for the countries that ring the Caribbean Sea. Accordingly, there is still a strong incentive for the nations of Latin America and the Caribbean to reach a trade agreement with the United States to be able to export their most competitive exports to that market, and facilitate the transfer of investment capital and technology required for further economic development. A genuine Free Trade Area of the Americas (FTAA) is therefore still an attractive proposition. What has changed, though, is that the one sided trade agreements that forced vulnerable smaller countries to make all the painful market opening concessions while the United States could appease its special interest groups with continued protectionism are no longer feasible. For example, energy independent Brazil will never agree to open its huge and increasingly affluent market to U.S. goods and services if the United States does not reciprocate by doing the same for its most competitive exports.

Conclusion

President Obama missed a golden opportunity provided to him by the Fifth Summit of the Americas to offer a bold vision of partnership that can both excite the imagination and engage the people of the Western Hemisphere to ensure that it is implemented. Nothing indicates that his administration will change course in the foreseeable future. That is unfortunate because Latin America and the Caribbean will continue to solidify commercial and political relationships with governments outside the hemisphere. Eventually that phenomenon could well cripple future efforts of the Obama administration to reduce carbon emissions, enhance energy security, and revitalize the U.S. economy through increased exports.

The likely continued absence of leadership coming from the United States on any major inter-American initiative means that the larger Western Hemisphere nations (including Canada) will need to fill that void. In particular, these governments will have to formulate the framework for a mutually beneficial partnership involving all the countries in the Americas that addresses the need to liberalize trade in goods and services (including both conventional and alternative energy resources), regulate the flow of migrants, and establish a workable hemispheric cap and trade program on carbon emissions. Once that is done, they will then need to lobby the Obama White House to show how their proposal complements what he is trying to achieve on the domestic front. If the leaders of the larger countries in the Western Hemisphere fail to act, the Fifth Summit of the Americas may very well be the last.

1 In 2008 United States taxpayers subsidized the domestic ethanol industry at an estimated cost of US$ 9.2 to 11 billion. *See,* D. KOPLOW, BIOFUELS AT WHAT COST?: GOVERNMENT SUPPORT FOR ETHANOL AND BIODIESEL IN THE UNITED STATES 1 (October 2007).
2 M. Wara & D.G. Victor, A Realistic Policy on International Carbon Offsets, (April 2008) (Program on Energy and Sustainable Development Working Paper # 74). Available at: http://fsi.stanford.edu/publications/a_realistic_policy_on_international_carbon_offsets/
3 *See,* BLUEPRINT FOR A SUSTAINABLE ENERGY PARTNERSHIP FOR THE AMERICAS, *supra,* note 12 at 5-6. The full report is available at: http://www.cigionline.org

Thomas Andrew O'Keefe (taokeefe@mercosurconsulting.net) is President of Washington, D.C. based Mercosur Consulting Group, Ltd. [http://www.mercosurconsulting.net], adjunct professor in the International Relations and Earth Systems programs at Stanford University, and author of Latin American and Caribbean Trade Agreements: Keys to a Prosperous Community of the Americas (Leiden, NL: Martinus Nijhoff (Brill), 2009).

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