



Latin American Futures Project

January - May 2003



Summary Results

United States Naval War College
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Summary Results
With a Policy Annex by the
Naval War College

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Paul D. Taylor, Principal Drafter

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DISCLAIMER

The National Intelligence Council and the Naval War College routinely sponsor unclassified conferences with outside experts to gain knowledge and insight to sharpen the level of debate on critical issues. The views expressed in this conference report are those of individual participants and do not represent official US Government positions or views, or those of the participants' organizations.

Foreword

by

Alberto R. Coll, Ph.D.

Dean of the Center for Naval Warfare Studies

A decade ago, in the early 1990s, students of international relations could sense the euphoria of an end to the Cold War, the collapse of the longtime nemesis of democratic and market-oriented societies, and the prospect of a more secure and prosperous future. In our own hemisphere, a similar euphoria prevailed. Every country except Cuba had an elected government, economies were being modernized along the free market lines of the so-called “Washington consensus” and, aside from the problem of narcotics, the region seemed to have entered a safer and less worrisome era.

Wiser heads understood then that elections were the beginning but not the totality of democratic life, and that secondary reforms would be necessary to establish the institutions of government which would assure the success of effective public administration and independent and fair dispensation of justice. Few were prepared, though, for the disillusionment that set in when the promises of freedom and prosperity could not be realized at a rate sufficient to convince citizens that their societies had turned a corner. Oddly, the region passed from a period in which the prevailing problem had been abuse of excessive governmental power, especially used against self-styled revolutionaries, to one in which the dominant problem was a deficiency of state power. The good intentions of elected leaders could not enable them to keep privatization from seeming to benefit only the well-connected and not the majority of citizens. The courts were often unable to create a perception that the rule of law was sufficiently grounded to provide security to citizens or confidence to investors. Most governments were unable to make any progress at all toward reducing the disparities in the distribution of income that made Latin America the region of the world with the least equitable economies. In light of these failures, it is not surprising that the prevailing mood in Latin America has shifted from euphoria to uncertainty. Whether the symptom is polarization, as in Venezuela; rapid turnovers of governments, as in Argentina; or a vote for a military strongman, as in Ecuador, the future of democratic government seems fragile and the economic outlook clouded.

No one can be sure whether this situation is the bottom of a trough or only a point on a downward slope, or what if anything the United States should do about it. With these questions in mind, the United States Naval War College and the National Intelligence Council collaborated to design and conduct a series of three workshops during 2003 to think systematically about the future of the Andean Region and Brazil. Tapping the wisdom of some sixty experts from academia, the government and the private sector, they attempted to understand what could happen there and the implications of those developments for the United States. This report is the result of those labors. It provides an interdisciplinary, in-depth look at a range of key issues, and I am confident it will prove useful to policy makers and to others who care about the future of our hemisphere.

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Insights and Conclusions

The Latin American Futures Project inquired into possible futures of six South American countries: Bolivia, Brazil, Colombia, Ecuador, Peru and Venezuela. Participants in three workshops—including five dozen officials, former officials, scholars and business executives—assessed developments that could occur during the next five years and examined their implications for the United States.

Regional

The Andean region and Brazil confront serious economic, political, and security challenges at a time that past models—including the “statist” model of the 1970s and the “neoliberal” model of the 1990s—appear to offer no ready relief. But the initial successes of President Luiz Inacio “Lula” da Silva in Brazil, who has sought to navigate a middle course, offer the region tangible hope of future progress and avoidance of extremism.

- ④ Lula, a labor leader with a long record of leftist activism, has downplayed ideology since taking office in January 2003 and emphasized good governance, a mixture of economic responsibility and social spending, and consensus-building—a modern democratic capitalism. Brazilian elites, more than their counterparts in the Andean region, have also assumed a positive stance and chosen to work with Lula on a common approach. Brazil’s success underscores the contribution of modern political parties as stabilizing forces.
- ④ A successful center-left government in Brazil might be more readily adopted as a model by Mexico, Bolivia, Ecuador or Peru than the Chilean model of the post-Pinochet era, because Brazil looks more like their countries than does Chile. Ecuadorian President Gutiérrez appears to be trying to follow a course similar to Lula’s, with some additional emphasis on enfranchisement of the country’s indigenous majority.
- ④ Failure by Lula in Brazil, however, would have repercussions beyond its borders. It probably would deflate hopes for the future and seriously hurt the economies of most South American countries.

Colombia also represents some regional hope for solving the vexing strategic challenges of the narcotics trade and insurgency.

- ④ A peaceful Colombia would provide an example to other Andean countries. It would be harder for Sendero Luminoso to function in Peru, for example, if the Revolutionary Armed Forces of Colombia—FARC—and the Army of National Liberation—ELN—were laying down their arms and integrating into the Colombian political system.
- ④ Colombia’s impact on the region will be very positive if Uribe manages to build durable elite and popular support for addressing both the security challenges—primarily prosecuting an effective counterinsurgency—and the underlying causes of the nation’s problems, including the lack of economic infrastructure, services, and civil institutions in much of the national territory.

- ④ The full salutary impact is unlikely to be realized, however, because Colombia's neighbors are ill-prepared to take aggressive, well-resourced steps to prevent the drug industry from expanding operations in their countries as Bogotá increases pressure on it—the “balloon effect.”
- ④ The current high level of US attention and military assistance to Colombia creates resentment elsewhere in the region.

Workshop participants assessed that the Andean region and Brazil will continue to have difficulty striking a balance between strengthening the state and decentralizing decision-making. Most participants judged that economic imperatives thrust this challenge upon the region as an either/or proposition.

- ④ Latin American governments are weak, under-resourced, and readily corruptible by narrow interest groups—seriously undercutting their effectiveness even on key issues and often forcing them to neglect large regions and populations.
- ④ On the other hand, decentralization can strengthen democracy and governance by bringing decision-making closer to the people and improving accountability and openness. Some workshop participants posited that decentralization in the absence of a strong state strengthened forces of disintegration in Colombia and could lead to deterioration in Peru.

Free trade under the rubric of the Free Trade Area of the Americas (FTAA) or bilateral agreements with the United States presents some tough short-term challenges for the region but offers prospects of significant payoff in the future.

- ④ Governments will have to overcome considerable skepticism at both the elite and popular levels. National industries are often ill-prepared to compete in global markets, and alternative employment for affected workers is not on the horizon. The reforms concomitant to free trade, such as lowering barriers and accelerating privatizations, are perceived as aggravating inequitable distribution of income and concentration of benefits in certain geographic areas.
- ④ Regional elites and popular leaders, moreover, expect greater US flexibility in trade areas of prime interest to them, such as agriculture. Workshop participants judged that resolution of disputes over antidumping provisions, countervailing duties and domestic price supports is key. Participants felt that most Latin American leaders have concluded that issues such as agriculture must be resolved in a broader venue, such as in the Doha Round of the World Trade Organization—WTO, before a serious free trade initiative can be completed covering the whole western hemisphere.
- ④ Workshop participants assessed that the Southern Cone Common Market (MERCOSUR) is a useful “way station” on the road to an FTAA. If FTAA bogs down and consolidation of MERCOSUR—as currently configured—were to become an end in itself, though, members would risk being locked into the inefficiencies of neo-mercantilism.

Investment and access to capital are, of course, crucial to economic stability and growth with or without a hemispheric free trade accord.

- ④ Although workshop participants assessed that domestic developments—such as security, fiscal performance, and policies that provide incentives—are the primary determinants of investor interest, they emphasized that capital flows into Latin America are also a function of opportunities in places like India and China, which are absorbing huge amounts of investment dollars. The Andean region and Brazil will face stiff competition in this area.
- ④ Remittances to Latin America are a massive source of capital, representing the single biggest source of foreign capital in some of the region’s smaller economies. However useful, the remittances come from an expatriate community that represents a significant drain in human capital that, some workshop participants believe, has hurt development in home countries. Transaction costs for remittances are excessive, often sapping 20 percent of their value.

Participants judged that the region needed to pursue broad-based reforms compatible with increased trade and investment.

- ④ The “next generation” of economic reform needs to be orchestrated in a way that does not aggravate fiscal crises. The 1988 changes in the constitution of Brazil caused ten years of fiscal turmoil. When funds are reallocated from federal to local levels, responsibility and accountability also must be reassigned.
- ④ Investment in education, especially at the primary and secondary levels, is a *sine qua non* of regional progress. Public education has tended to neglect the most needy, prolonging the cycle of ignorance and poverty.
- ④ The lack or failure of land reform has hindered regional development. Latin America has not enjoyed the success of programs in Japan, Taiwan and Korea after World War II—and some workshop participants opined that such approaches would draw international condemnation in the 2000s. The work of Peruvian development specialist Hernando de Soto, which emphasizes titling of properties legally occupied by the poor, will hold promise if translated into broader, sustained policies applicable on a national basis.
- ④ The region’s oil producers are challenged to evolve from the traditional rentier model to a modern one in which the wealth generated from resource extraction can be used for broad national good without distorting government and political processes.

The Andean region and Brazil are not now and are not likely to become the base for significant terrorist activities against the United States in the immediate future. Long-term vulnerabilities such as political and economic instability, weak public and private institutions, and corruption suggest, though, that the region could become more attractive to terrorist groups as a staging ground.

- ④ Hezbollah and other groups have networks in the Triborder area (a grey- and black-market center on the borders of Argentina, Paraguay and Brazil) that are a potential source of revenue for terrorist organizations in the Middle East. Because terrorists gravitate toward the least threatening environment in which to operate, any weakening of the states adjacent

to the Triborder region could give way to increased terrorist presence and activity. (Participants differed on whether a strong economy helped or hindered terrorist fund-raising. A thriving economy creates wealth, but a declining economy shifts wealth to the informal sector in which fund-raisers thrive. (Participants opined that most of the funds collected by Arab residents of the Triborder area go to legitimate Islamic charities.)

- ④ The ability of radical Islamic terrorist groups to exploit existing weaknesses in the region—to procure false documentation in Latin America, to gain access to the United States through established alien-smuggling rings, to subvert weak and ineffective governments and to strengthen criminal elements in the hemisphere represent serious potential threats to US interests.
- ④ Workshop participants noted a surge in collaboration between narcotics organizations and insurgent groups in Colombia and, consequently, a surge in cross-border contact between the insurgents and arms dealers throughout the region.

War between regional states appears unlikely, but festering border problems could force themselves onto the regional agenda in the next several years—and diminish prospects for cooperation on other serious problems.

- ④ Implementation of the 1994 agreement ending the Ecuador-Peru war has gone smoothly, but workshop participants warned that border frictions could resurface, perhaps intentionally ignited by underperforming governments in Ecuador and Peru to create a diversion from internal challenges. The Bolivian and Peruvian militaries are among the least “reconstructed” in the region, and weak civilian leaders could grant them more power and influence.
- ④ Tense border relations between Bolivia and Chile are likely to impede cooperation. Bolivia lost its access to the Pacific in a war with Chile in the 19th century and seeks some sort of guaranteed route and port for its newly planned gas pipeline.
- ④ Security problems along Colombia’s borders with Venezuela and Ecuador are and will remain acute.



Brazil

Workshop participants agreed that the consolidation of democracy in Brazil, reaffirmed by the inauguration of President Lula on January 1, 2003, has been facilitated by the strength of the country’s political parties and reasonably mature political leadership.

Brazil has achieved a consensus on three key economic policies: the need for fiscal responsibility, a floating exchange rate and inflation targeting. President Lula has joined that consensus and begun to make significant progress toward institutionalizing them. But continuation of that consensus is not assured.

- ④ If Lula's policies do not succeed, he could disavow the "neoliberal" prescriptions of the "Washington consensus" and revert to the populist program that characterized the early stages of his presidential campaign.
- ④ Poor economic performance could exacerbate crime and lead to further popular questioning of the value of democracy.
- ④ Were inflation to accelerate and the threat of a loan default to become imminent, the effect could be contagious in other countries of South America. Regional risk assessments could worsen and intra-regional trade could be dampened.

With a moderately favorable external economic environment, Brazil should be able to achieve a 4 to 5 percent growth rate quite easily—the minimum needed to move aggressively against poverty, reduce crime and avoid the political instability created by land takeovers by groups like the Movement of Landless Rural Workers (MST).

Brazil's negotiating stance will be a key determinant of the success or failure in the negotiation of a FTAA by 2005. The country's economic performance, however, is not a key determinant of that stance.

- ④ Some conference participants reasoned that if the Brazilian economy were performing poorly, the government would have difficulty negotiating because companies and their workers would argue that they could not stand the increased competition that would result from lowering barriers to imports. Others opined that in a poor economy, the inducements of collateral concessions, e.g., in financial support, could make the completion of an FTAA attractive. Also, competitive firms would press for more open export markets if their sales opportunities were limited by weakness in the domestic market.
- ④ Good economic performance could go either way as well. If the Brazilian economy were doing well, export-oriented Brazilian enterprises could argue that the time was right for an accord. On the other hand, some Brazilians might argue in good times that their economy could do all right without an FTAA, stressing that increased trade within the Southern Cone Common Market would suffice.

A serious deterioration in Brazilian security—caused by increased criminality or a rise in transnational threats (including terrorism and drug-trafficking)—would stretch the country's ability to react and probably increase receptivity to international cooperation and US assistance.

- ④ Brazil has become the world's second largest consumer of cocaine (from Colombia, Peru and Bolivia), which has directly affected constituencies within Lula's political base. Arms trafficking in remote border areas could become a national issue.
- ④ Brasilia is cooperating in operations against groups in the Triborder area (Brazil, Paraguay and Argentina) associated with Middle Eastern terrorists.

An economic downturn would pose problems for the Brazilian military.

- ④ It could reduce Brazil’s military options to a choice between focusing on internal security and downsizing. The Navy’s aspirations of acquiring aircraft carriers or submarines would have to be put on hold.
- ④ The military could promote a nationalistic agenda and—in an extremely unlikely but high-impact scenario—advocate development of nuclear weapons to make the international community treat Brazil like a “real partner.” (Most participants doubted that a nuclear program could be justified and assigned an extremely low probability to it. The majority felt that credible security assurances through international organizations or treaties could continue serving to deter nuclear proliferation.)



Colombia

The short-term outlook in Colombia, at least on security issues, will depend on the ability of President Uribe, his Ministry of Defense, and the military high command to reach a common understanding on the nature of the threat and on viable solutions. Other problems stem from a generally lackluster economy, poor tax collections and a strained public sector budget.

- ④ Conference participants also underscored the danger that too much emphasis might be placed on achieving a military solution while neglecting the social and economic needs of the rural sector and the dire need for reform of the legal system. The situation has a Catch-22 element in that the government has difficulty meeting rural needs until rural areas are pacified.
- ④ Participants assessed that key to defeating the Colombian illegal armed groups—the Revolutionary Armed Forces of Colombia, the Army of National Liberation, and the United Self-Defense Forces (AUC)—is cutting off their access to money from the narcotics industry, kidnapping and extortion. All three major groups could be defeated within five years.

Regional support for solutions in Colombia has been muted because the neighbors generally feel little need to help and, in some cases, disagree with the emphasis on security programs.

- ④ The governments of neighboring countries have sensed that the United States has dominated the situation in Colombia and have not seen much opportunity or need to become involved. They have given little consideration to how a defeat of Plan Colombia would affect their security but have judged that the United States and Colombia have put too much emphasis on the military aspects of the problem.
- ④ If anything, the neighbors would probably encourage Colombia to seek a negotiated settlement with the FARC and the ELN.

Colombia is well-equipped to experience robust economic growth as security conditions improve. Stability could expedite regional economic integration.

- 🌐 Conference participants believe that Colombians are entrepreneurial and their economy is diversified. With its rich endowment of natural resources and human capital, Colombia could quickly adjust to the loss of income from narcotics.
- 🌐 Negotiation of a free trade agreement with the United States would energize Colombian efforts to strengthen trade and investment rules and attract foreign investment.



Venezuela

Conference participants agreed that after more than three years of political crisis, Chávez's political program is in tatters and now boils down to a grudge match between himself and his opponents. The poor, Chávez's main support base, apparently remain loyal to him, even though he has not improved their economic conditions, because he has spoken out forcefully on their behalf. Workshop participants said that Chávez's predecessors and his current political opponents have never projected an understanding of the problems of the poor, who make up 60–80 percent of the population, nor tried to ameliorate them.

- 🌐 Overall economic performance may not have much effect on the loyalty of Chávez's core supporters, because they depend on rewards that are partly symbolic and partly related to the economics of survival outside the formal economy.
- 🌐 Chávez's combative personality and revolutionary rhetoric, as well as the myopic concentration of elites on preserving their privileges, work against a peaceful resolution of current tensions. The mobilization of people at the grassroots level by both sides has given momentum to simplistic, radical prescriptions and undercut their own ability to find solutions.
- 🌐 Without the mediation of viable, vigorous political parties, politicians go directly to the people and representative democracy suffers. In Venezuela, the traditional political parties collapsed, and Chávez—who was elected without them—has thwarted their resurgence

Chávez altered the political dynamic when he aroused the middle class by decreeing laws that it construed as threatening economic development beyond the petroleum sector and consequently drove the middle class into an opposition dominated by the elites. The state could co-opt the elites by undertaking an ambitious program of public investment, but it has not.

- 🌐 The willingness of elements of the Venezuelan opposition to employ non-democratic means to oust Chávez strengthens his resolve to use strong-man tactics to retain his power. Some Venezuelan firms that might have favored the opposition have profited from their relations with Chávez.

Current plans for a referendum on Chávez's tenure offer some hope of reducing tensions by focusing energies on a democratic process, but making it run smoothly poses serious challenges.

- ④ Chávez's opponents need to unite if they are to succeed in a referendum to remove him. Workshop participants assessed that this outcome would require many opposition leaders to overcome their own egos and greed. Without a strategic plan, they play into Chávez' hands. Nevertheless Chávez might have less chance to win a referendum on his continuance in office than an election where he would run against a specific opponent.
- ④ If Chávez were to lose a referendum, he might not abide by the results. He made statements widely interpreted as indicating that he plans to be president until 2020. He could trash the constitution when he considered the time right—although most conference participants judged it unlikely because the military would not stand for it—and oil gives him the resources he needs to sustain himself.
- ④ If Chávez clearly defied the Venezuelan constitution and remained in power by authoritarian means, it would be unacceptable to the countries neighboring Venezuela, to the Organization of American States—OAS and to the international community in general. Venezuela could become an isolated, pariah state. The OAS would have to choose between expelling Venezuela and becoming irrelevant.

International pressure on Chávez will have differential effects. Unless it comes from friends like Cuba, Brazil, or Russia, pressure may be seen as ineffectual meddling by countries that do not wish Chávez well and could help Chávez politically. Some workshop participants, citing Chávez's receptivity to lobbying by President Lula, speculated that he would be receptive to other friendly approaches and advice on the need to stay on a democratic path.

- ④ Fidel Castro figures importantly in Venezuela as symbol of successful defiance of the established hemispheric order but also as a seasoned survivor whose coaching and solidarity reportedly have bolstered Chávez. His intelligence support and other assistance have helped Chávez.
- ④ Workshop participants assessed that the potential is not great for important links between the Bolivarian Circles in Venezuela and the FARC. The Bolivarian Circles are an urban phenomenon, established to distribute rewards to supporters of the government, not a guerrilla movement.

As for any Venezuelan head of state, the world price of oil is a key determinant of the future success of President Chávez's administration.

- ④ Oil is a blessing and a curse for Venezuela. Economic and political activities are distorted by the almost exclusive, narcotic obsession with gaining and maintaining access to oil dollars, inhibiting economic diversification and limiting distribution of wealth. No one yet has appeared with the vision and political skills to wean Venezuela away from the rentier mentality and system that has been the primary economic driver for decades and the major flaw in the political culture.

- ④ Many Venezuelans have unrealistic expectations of what they are owed from Venezuela's oil resources. Per capita oil wealth has been declining since the 1970's and will go down even faster as the political confrontation continues.
- ④ The international oil industry is much more interested in the reliability of Venezuela as a supplier than in its form of government. Unless there were some other problem in the international oil market, however, the Venezuelan supply would not be considered critical even to the oil industry.

If Chávez is removed from office, his successor will have to make serious changes to bring stability to Venezuela.

- ④ Conference participants judged that progress would not be possible as long as the revenues went to the few. Oil revenues would have to be redirected to reform and rebuild the country's infrastructure.
- ④ The task of building a strong civil society and strong institutions would require more than money and intellectual talent, which Venezuelans have. It would need a widespread sense of national identity and commitment to the whole society. Elites have lacked this concept of nation; civil society was already in steep decline before Chávez's election; and Chávez has weakened political institutions even more.
- ④ Participants thought it was more likely in a post-Chávez environment that business, labor, and the traditional parties would seek a return to the status quo ante than cooperate to promote an inclusive program of national conciliation.
- ④ Venezuela could be facing something similar to what Argentina experienced after Perón when two radically different visions of the country polarized political life. Decades were needed to overcome the differences.



Ecuador

As in other Latin American countries, the traditional political parties of Ecuador have virtually collapsed, and political influence has been shifting from the elites to previously disenfranchised groups. Politicians can go directly to the people, as did Lucio Gutiérrez to win the presidential election without the support of traditional political parties.

The massive marches against the Mahuad government demonstrated the potential political power of the indigenous people. Ecuadorian indigenous groups have opted to work within the system and their integration into the system has begun. Although this development is positive in advancing democratic development, it has the negative effect of contributing to political instability.

- ④ Most conference participants expected that Gutiérrez would fail to satisfy both the aspirations of his indigenous supporters and the requirements of the international financial community. Nonetheless, a strong majority expected him to complete his term and hand the presidency over to an elected successor.

If Ecuadorian military leaders became frustrated over the inability of the Gutiérrez government to quell violence, they might attempt to assassinate the president or to seize power directly. They probably would not be deterred by any sense that Gutiérrez was one of their own. Gutiérrez alienated many military officers by appointing his favorites over officers the services recommended, but he also removed potential opponents by retiring them from senior positions in the armed forces. Another key to military loyalty might be the government's treatment of military monopolies and other income generators.

A deepening economic crisis in Ecuador could trigger strong—perhaps violent—demands from indigenous groups. The government might try to use its weakness to extract concessions from its regional trading partners and from the United States to avoid becoming “another Colombia.”

Ecuador does not seem to have the conditions that gave rise to terrorist movements in Colombia and Peru. In Peru, recruitment by Sendero Luminoso benefited from several decades in which youth were educated and found neither suitable professional opportunities nor legitimacy in the social hierarchy. Moreover, Ecuador does not have the history of drug cultivation of Colombia, Peru and Bolivia.

- ④ Regional, geographic, economic and ethnic fault lines crisscross Ecuador, and several workshop participants speculated that a future crisis could cause the country to break apart.



Peru

Almost all workshop participants judged that Toledo, although weakened by political and economic frustration, would muddle through his term and be succeeded by an elected successor.

If Alan García were elected president, his success would depend on departing from the policies that he implemented when he was president during the 1980's, which alienated the international financial community and caused an economic debacle. Most participants doubted he would handle the Peruvian economy responsibly.



Bolivia

Workshop participants judged that the questions and the political options facing Bolivians have changed in major ways, but few expressed confidence in the outcome. Indigenous groups are

entering the political process but their ability to influence the mainstream and play a constructive national role depends on the skills and adaptability of their leaders and the receptiveness of traditional political forces.

- ④ Most conference participants assessed that President Sanchez de Losada would not recover real political strength after the crises in early 2003. Much depended on whether Bolivia would complete a gas pipeline agreement with Chile and be able to achieve a national consensus on mechanisms for exporting the natural resource.
- ④ Evo Morales—a *cocalero* leader who's increasingly cast himself as a representative of the indigenous—could be elected president, at which time he could adopt a “Chávez model” or a “Gutiérrez/Lula model.” Participants tended to believe that he would remain anti-systemic to promote the badly needed and popular social reforms he has advocated, although he has not demonstrated the ability to lead a sustained project. A government headed by Evo Morales would present a challenge for US policy: to deal with a leader with strong *cocalero* sympathies and authoritarian tendencies.

An important challenge for Bolivia is to develop employment opportunities outside the coca industry. The synergy between drug wealth and terrorism, as in Colombia and Afghanistan, could be replicated in Bolivia.

- ④ The overwhelming majority of conference participants judged that narcotics production and exports would increase in Bolivia, especially if production were curtailed in Colombia and producers looked for an alternative environment with weak government.

Key Drivers

Workshop participants identified the following drivers as having a significant impact on events in the Andean Region and Brazil over the near- and medium term.

Economic

- 🌐 The international economy—including the availability of investment dollars and markets for Latin American goods—has a mixed outlook.
- 🌐 The world price of oil—especially for Venezuela, Colombia and Ecuador—has a good near-term outlook, but prices are likely to drop in the medium term.
- 🌐 US natural gas imports, especially on the West coast, look promising.
- 🌐 Success of President Lula’s economic policies in Brazil have great potential for the South American continent in the next few years—both as a policy model and as an economic engine for the region.
- 🌐 Security challenges, instability and corruption will continue to cause capital flight and discourage influx of international capital.
- 🌐 Remittances to their home countries by Latin Americans in the United States will exceed in value all official development assistance.

Political

- 🌐 The poor state of civil society—traditional parties have virtually collapsed in the Andean countries—and political institutions will continue to limit progress and encourage autocratic tendencies.
- 🌐 Inequalities in distribution of income and wealth are likely to be increasingly causes of political mobilization.
- 🌐 Ethnic consciousness—such as indigenous in the Andes and Afro-Brazilians—is likely to continue rising, albeit with diffuse, inarticulate political leadership.
- 🌐 Corruption and elite aloofness in the face of national problems will continue to diminish slowly over many years.
- 🌐 Rentier economic practices will continue to distort national politics in most of the region.

Security

- 🌐 Foreign demand for illicit narcotics will continue, and the drug trade and related organized criminal organizations are likely to prosper in at least the medium term.

- ④ Insurgent pressures are likely to continue because governments are weak and social investment and economic opportunities in rural areas are minimal.
- ④ Governments probably will remain weak, inadvertently creating space for terrorist groups to establish a foothold in the hemisphere.

Probabilities

Participants anonymously assessed the probability of various developments by 2007, with the following results.

Regional

- 🌐 By varying margins, workshop participants judged that a Free Trade Area of the Americas would be negotiated no later than 2007.
- 🌐 Nearly all participants thought that, if narcotics production were significantly curtailed in Colombia, narcotics production in Bolivia and Peru would increase because those countries are ill-equipped to prevent it.



Brazil

- 🌐 Most participants expected President Lula to manage the Brazilian economy successfully enough to avoid a default during his first term, while they doubted that he would be able to meet the expectations of his disadvantaged supporters or reduce urban violence.
- 🌐 A slight majority agreed that the Lula administration would emerge as a regional model for balancing “neoliberal” and “statist” policies.
- 🌐 The group was nearly evenly divided on whether urban violence in Brazil would be reduced by 2007.



Colombia

- 🌐 By a slight margin, participants were doubtful that guerrilla groups in Colombia would have ceased armed action, although some combatants are likely to seek reintegration into Colombian society.
- 🌐 They were split over whether violence would continue at the current level, but most opined that it would not get appreciably worse.
- 🌐 Most participants doubted that the Colombian government would abandon efforts to defeat the guerrillas and decide to negotiate a peace.



Venezuela

- ⌚ Participants were split over whether Chávez would complete his term in office, but there was some agreement that: 1) he would not successfully eliminate his opposition, and 2) if forced out, he was more likely to lead a legal opposition than an armed revolutionary movement.
- ⌚ Participants thought it was more likely, in a post-Chávez environment, that business, labor and the traditional parties would seek a return to the *status quo ante* than that they would cooperate to promote an inclusive program of national reconciliation.
- ⌚ A majority believed that after Chávez, business, labor and the traditional parties would eschew the option of cooperating to promote an inclusive program of national conciliation in favor of seeking a return to the *status quo ante* Chávez.



Ecuador

- ⌚ Most thought that Gutiérrez would fail to satisfy simultaneously the aspirations of his indigenous supporters and the requirements of the international financial community.
- ⌚ They concluded by a significant margin, though, that these difficulties would not prevent Gutiérrez from completing his term as president.



Peru

- ⌚ A strong majority of participants believed that Toledo, while weakened by political and economic frustrations, would muddle through and hand the presidency over to an elected successor in Peru.
- ⌚ If former President Alan García were elected after Toledo stepped down, most participants doubted that he would manage the Peruvian economy responsibly.



Bolivia

- ⌚ A strong majority of workshop participants thought that Sanchez de Losada would not recover real political strength after his crises during the first year of his current term.
- ⌚ Nearly all judged that narcotics production and exports would increase in Bolivia because of the weakness of the government, and that production could move there if eradication in Colombia were more successful.
- ⌚ There was no consensus on whether a pipeline agreement would be completed between Bolivia and Chile.

“Wild Card” Scenarios

As a complement to discussions of scenarios presented by the organizers of the workshop, participants were invited to suggest “wild card” scenarios, i.e., developments that could occur unexpectedly and have the potential to alter significantly the outlook for US interests in the region. Among the offerings were:

- ④ Assassinations or accidents claiming the lives of one or more presidents in the region could result in new policies. A successor to Colombian President Uribe, for example, might adapt a strategy less dependent on military force. The assassination of Venezuelan President Chávez probably would spark significant civil strife.
- ④ Flash elections or violent popular uprising in Bolivia could bring Evo Morales to office, resulting in the emergence of a government with strong leftist overtones and sympathy for *cocaleros*.
- ④ Expansion of the production of synthetic drugs could alter the drug trade by eliminating the traditional signatures of production and trafficking or changing the locus of production and trade.
- ④ The emergence of transnational terrorist cells in the region; al-Qa’ida or other groups could stage an attack in São Paulo; the Colombian FARC could strike on the US mainland.
- ④ A cross-border attack, such as hot pursuit by Colombian units against FARC operatives hiding in Venezuela, could spark broader regional tensions.
- ④ Massive fluctuation in the price of oil could give an unexpected boost to some in the region and seriously hurt others.
- ④ Serious US economic troubles could have deep negative repercussions for the Andean region and Brazil, fueling rejection of US leadership.
- ④ SARS, AIDS or hoof and mouth disease could spread rampantly throughout South America.

Annex 1—Policy Options for the United States

Prepared by the Naval War College

The ideas presented below encompass options that participants in the project identified as available to the United States. Some of these are incompatible with one another and many were opposed by some participants. They are offered more as the results of well informed deliberations that policy makers might wish to explore than as a coherent plan of action. Many elements are part of current policy.

Regional Options

Macro-economic performance in the region could be enhanced by:

- ④ Improved rates of growth in the United States, something the USG will favor for reasons of both domestic well-being and foreign relations.
- ④ Further trade liberalization through bilateral agreements and a Free Trade Area of the Americas.
 - This objective may be realized only if the United States adopts a more flexible approach to meeting some of the specific needs of countries in the region.
 - A particular negotiating challenge is how to deal with agriculture, a sector of great interest to Latin America, but on which the United States has serious problems to resolve with Europe.
- ④ Support for democracy, regardless of ideology, in order to remove an element of uncertainty that depresses investment and growth.
 - The lack of any hemispheric consensus on enforcement complicates any response to violation of the Democratic Charter. Should the OAS become an enforcer? What would be the implications if the United States assumed that role?
- ④ Assistance to implementation of “second generation reforms,” including the creation or strengthening of regulatory institutions.
 - The uncertain judicial environment is a serious impediment to investment in most countries of the region.
 - Several countries’ investment climates could be improved by adoption of a bankruptcy regime.
 - Controls on the flow of short term capital may be needed to avoid the destabilizing effects of volatile capital movements.

Development and improved distribution of income could be encouraged by:

- ④ Long-term investment in primary and secondary education, where the needs are greatest, to promote development, reduce youth unemployment and ameliorate polarization in politics.

- Education of women needs greater attention.
- Adult education and distance learning hold promise for overcoming deficiencies, but programs like helping small businesses can be difficult to manage successfully.
- Higher education frequently produces more graduates than can find suitable employment, but if they leave to work abroad their remittances may be important enough to their home country to justify the investment in their education. Success in reducing the cost of remittances to Mexico should be replicated elsewhere.
- 🌐 Land reform may foster better distribution of income and wealth, improve agricultural output, reduce instability in rural areas and slow the pace of urbanization, but its success may require extensive investments in training farmers in how to make land productive.
- 🌐 Decentralization of government once states are strong enough, supported by establishment of USG offices in some non-capital cities and more encouragement from international financial institutions.
 - Reducing corruption and enhancing opportunities at a local level may be more cost effective than doing the same things at the center.
- 🌐 Fostering the rule of law, providing incentives for reform and greater transparency.

Trade and foreign investment could be promoted by:

- 🌐 Negotiating bilateral free trade agreements and the FTAA.
 - Negotiation of bilateral free trade agreements may create building blocks with which to construct a hemispheric FTAA or they may cause some trade diversion and establish interested blocs of countries that would prefer to preserve their privileged access to the US market rather than expand the cohort of countries enjoying free trade. NAFTA members support a Free Trade Area of the Americas.
 - Free trade agreements may achieve political bonding among signatories as well as contributing to growth and stability.
- 🌐 Providing financial and technical assistance to help in developing trade capacity and implementing trade accords.
 - This approach may include teaching governments how to enforce rules that have been agreed, e.g. regarding the protection of intellectual property.
 - Better enforcement of labor standards and environmental protection are essential to sustained trade and development.

Because many important drivers of events operate across geographic and functional boundaries, policy needs to be formulated in a comprehensive manner to address spill-over effects and exploit synergies among approaches.

The most important policies needed to improve political and economic performance in the region are the purview of the countries' governments rather than the direct responsibility of the US government. Thus the United States might be most helpful by adopting a supportive posture toward the governments that are making progress on reforms and by managing its own economy in a way that achieves strong growth and avoids protectionism on goods of interest to the region.

Country Specific Options



Bolivia



Ecuador



Peru

Overall objectives

- 🌐 Democracy
- 🌐 Free markets
- 🌐 Security, including protection of citizens and property

Strategy

- 🌐 To strengthen democracy
 - Help militaries resist the temptation to intervene in politics
 - Technical support and advice (public/private partnerships, international education and training)
 - Institute a counterpart program to International Military Education and Training—IMET—for civilian officials
 - Seek to eliminate the pattern of wholesale changes in personnel that accompany changes of government in some Latin American countries
 - Create the conditions for sustained economic development by empowering local populations
- 🌐 To strengthen free markets
 - Promote freer trade and complete negotiations on a Free Trade Area of the Americas
 - Implement selected trade preferences, pending completion of a FTAA

- Strengthen public institutions (financial, regulatory, legal) through second generation reforms
 - Legislative and administrative measures to attain greater transparency and accountability
- Base assistance on performance related to targets developed jointly with the governments of recipient countries
- Enhance education, especially primary, to develop intellectual infrastructure
- 🌐 To enhance security
 - Security cooperation (military-to-military engagement)
 - Broaden the mission of the military to support domestic development, including infrastructure
 - Increase resources for domestic security
 - Public Security assistance program
 - Confidence building measures to prevent state-to-state conflict
 - Encourage effective regional institutions
 - Strengthen the Andean Trade Pact
 - Mutual aid/emergence assistance mechanisms
 - Reinforce institution building and share “best practices”
 - Cooperate with countries in the region to address spillover effects from Colombia
 - Military-to-military engagement
 - Intelligence sharing
 - Combined border cooperation



Brazil

Overall objectives

- 🌐 Democratic institutions and practices
- 🌐 Economic growth, stability and justice
- 🌐 Support for US security priorities, including counterterrorism and counter-narcotics
 - Mitigate current/potential terrorist networks in Brazil and the Triborder area

- No further development of nuclear weapons capabilities by Brazil
- 🌐 Brazilian leadership in resolution of regional conflicts

Strategy

- 🌐 To strengthen democratic institutions and practices
 - Seek ways frequently to convey respect for Brazil's size, importance and accomplishments
 - Try to overcome the perception that the United States does not pay enough attention to Brazil and work to encourage democratic achievements by presidential visits, legislative exchanges and programs of the National Endowment for Democracy
 - Recognize the strength, vigor and diversity of Brazil's democracy and try to avoid condescension and arrogance
 - By working with a center-left government in Brazil, convey to all countries in the hemisphere that healthy democratic practice has the support of the United States regardless of ideology
 - Support programs to enhance accountability and eliminate corruption
 - Support completion of second generation reforms to improve judicial performance, health, education and labor
- 🌐 To achieve economic growth, stability and justice
 - Increase engagement with Brazil to accelerate negotiations on a FTAA
 - Encourage international financial institutions to support Brazil
 - Facilitate the work of non-governmental organizations and multilateral organizations that foster social justice
 - Facilitate technological exchanges and joint research and development (e.g. in agriculture, and biomedical areas)
 - Support policies to reduce inequalities in the distribution of income, especially improvements in primary and secondary education
- 🌐 To enhance support for US security priorities
 - Strengthen security cooperation, especially at a technical level
 - Intelligence sharing
 - Military and police exchanges
 - Customs and immigration exchanges

- Develop bilateral strategies against narcotics and crime
- 🌐 To encourage Brazilian leadership in resolution of regional conflicts
 - Consult more closely on difficult problems facing the Andean countries
 - Promote Brazil as chairman of groups addressing political or economic difficulties where the Brazilian experience could provide a constructive model
 - Encourage Lula to use his personal relationship with Chávez to restrain the latter's antidemocratic tendencies



Colombia

Overall objectives

- 🌐 Significantly reduce the flow of narcotics to the United States
- 🌐 End guerrilla insurgencies and restore security
- 🌐 Strengthen national institutions
- 🌐 Promote Colombia's role as a regional partner of the United States

Strategy

- 🌐 To significantly reduce the flow of narcotics from Colombia to the United States
 - Promote "alternative development"
 - Interdict shipment of narcotics and precursor chemicals
 - Eradicate narcotics crops
 - Extradite narcotics traffickers to the United States for trial
 - Reduce demand for narcotics in the United States through education, treatment and stigmatization of drug use
- 🌐 To end guerrilla insurgencies, which are closely linked with the drug threat, and restore security:

- Launch “Jungle Storm I” to employ US and Colombian military forces jointly to destroy bases and plants and eliminate the FARC, employing hot pursuit if necessary
 - But this approach could cause Colombian armed forces to conclude that they did not have ultimate responsibility for defeating the guerrillas
 - Also, the guerrilla groups operating in Colombia might not succumb easily to US military force
- Seize the moment of promising leadership by President Uribe and support for his efforts by Colombia’s elites
 - Recognize, though, that the commitment must be long-term, say, twenty years
- Enhance Colombian military capabilities
- Increase pressure on regional suppliers of arms to guerrillas
- Prepare to open direct, but secret, US political negotiations with guerrilla groups when military action convinces them to talk seriously
 - But doing this could be seen as reducing the prestige and authority of the Government of Colombia
 - Another approach could be U.N. involvement in negotiations once it appears that guerrillas and the government are prepared to engage in genuine negotiations
- 🌐 To strengthen national institutions:
 - Provide training to Colombian police
 - Fund extension of government services to rural areas
 - Support fiscal reform
 - Encourage work with Colombian political parties by the National Democratic Institute and the International Republican Institute
 - Support initiatives to strengthen local governments
- 🌐 To promote Colombia’s role as a regional partner of the United States:
 - Negotiate a bilateral free trade agreement
 - Promote US direct investment through tax incentives
 - Sponsor trade missions



Venezuela

Overall objectives

- 🌐 Secure supply of oil
- 🌐 Stability
- 🌐 Institutional democracy
- 🌐 US influence
- 🌐 Limited regional influence of Hugo Chávez

Strategy

- 🌐 To ensure a secure supply of oil:
 - Maintain a dialogue on a strategic oil relationship
 - But recognize that Venezuela needs to sell its oil, and the United States can buy oil elsewhere
 - Encourage a more amenable investment climate
- 🌐 To achieve stability:
 - Condemn all extremism and encourage both the government and the opposition to avoid extreme rhetoric
 - Encourage disarmament of political groups
 - Offer conditioned trade incentives, such as participation in the Andean Preferences Act
 - Encourage both the government and the opposition to act democratically
- 🌐 To strengthen democracy:
 - Restore US credibility by judicious distribution of US blessings and access and working through multilateral groups
 - Use US resources to encourage the development of political parties, inter-party cooperation (a la the Boston Group) and institution building
 - Work to preserve the democratic rules of the game

- Encourage the development of responsible civil society and media
 - Support the Organization of American States and other institutions of international civil society to provide technical support to institution building
 - Develop a strategy for dealing with democratically-elected autocrats to avoid the kind of damage to democracy done by Fujimori and Aristide
 - To prevent appearances of US domination, this effort should be undertaken with other like-minded democratic governments
- 🌐 To achieve US regional objectives:
- Treat Chávez generally with benign neglect so as not to increase his profile
 - But challenge specific actions when it is possible to have a positive impact

Annex 2—Methodology

Methodology of the Project

The Naval War College and the National Intelligence Council undertook this joint research project during 2003 to examine in depth possible future developments in the Andean region and Brazil and their implications for the United States. Focused on the period some five years into the future, the assessment examined plausible economic, social, political and security developments. The principal purpose of the project was to provide strategic analytical insights that help officials formulate future policy.

The research effort encompassed three interrelated events:

Session I: An organized brainstorming session of officials, intelligence experts and scholars in the Washington area in January. These specialists employed groupware and networked computers to identify plausible best-case and worst-case outcomes for the region (in terms of US interests) and to identify drivers. The output of this event was used to develop material that was incorporated into hypothetical scenarios to provide points of departure for subsequent events.

Session II: A workshop in Newport during two days in April examined economic and social issues raised by the scenarios. Current policy makers, former officials, business executives and scholars met to identify the implications for the United States of these issues and consider means for influencing events in a positive direction.

Session III: A two day workshop in Newport in May explored the political and security aspects of the scenarios and their implications for the United States. Senior policy makers and others who had policy experience or academic understanding of these subjects examined relevant issues and developed options for the United States.

In each session, a combination of techniques was employed to elicit comments from participants. Networked computers and groupware enabled participants to respond anonymously to questions posed by facilitators. Responses were then displayed so that all participants could view and elaborate on other people's entries. These results were discussed orally. Participants in Sessions II and III also worked in small groups to develop analytical frameworks for discussion of policy options for the United States, which were presented to and discussed by all of the participants in the workshops. The Naval War College summarized these policy options in Annex 1 of this report.