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The U.S. Should Jumpstart Its Latin America Outreach, Starting With Chile

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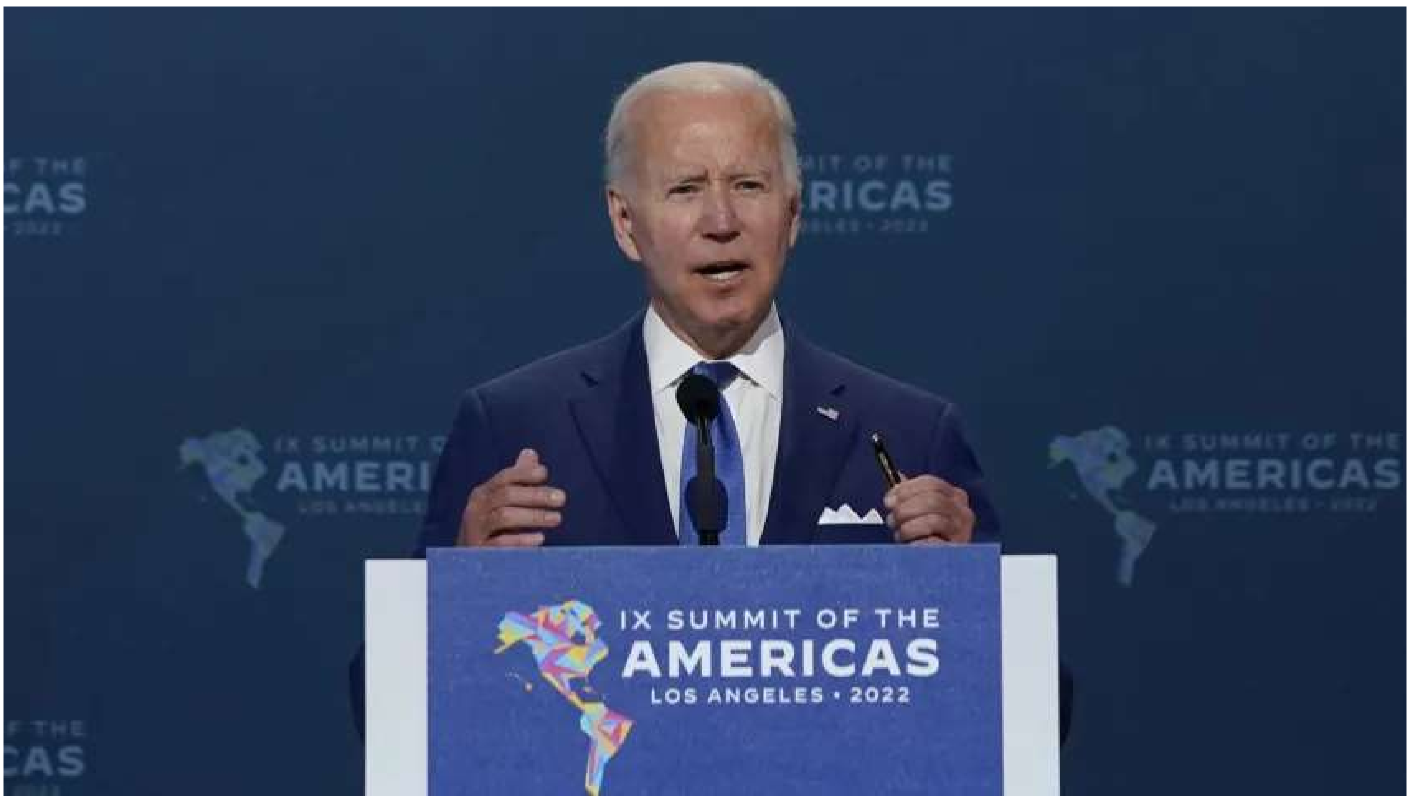

President Joe Biden speaks during the opening plenary session of the Summit of the Americas, June 9, 2022, in Los Angeles (AP photo by Evan Vucci).

The concern over strategic competition with China is palpable in Washington these days. But an effective strategy for countering China's aggressive and coordinated global outreach has so far eluded U.S. policymakers. Nowhere is this truer than in Latin America and the Caribbean, where a combination of China's expanded economic footprint and a resurgence of the region's left have dented Washington's influence in recent years.

The good news is that real opportunities exist for the U.S. to deepen its relationships in the region, including with some of the recently elected leftist leaders. A case in point is Chile, where President Gabriel Boric won election last year after campaigning on a progressive, leftist platform. Yet Boric has proven to be open to compromise since taking office in March, has not demonstrated the knee-jerk anti-Americanism that many leftists in the region resort to, and has been notably outspoken in criticizing human rights violations on both the left and the right. A pending bilateral tax treaty with Chile would offer Washington the chance to both improve U.S. companies' competitiveness in a crucial regional economy, while also helping to develop ties with the region's "new left."

Latin America has often received short shrift from the U.S. foreign policy establishment. Today, this is simply inexcusable, given that citizens of the Western Hemisphere broadly support democracy and market-led economies, are stewards of key strategic resources, and are being wooed by China as Beijing looks to increase its global presence and clout.

Much has been made of a "new pink tide" in Latin America, but what seems to be driving this shift is less the attraction of leftist ideology and more the frustration of voters with leaders who are not delivering prosperity.

And yet, U.S. policy toward the Western Hemisphere, historically characterized by benign neglect, is now further hobbled by an inward-looking, defensive posture. The U.S.-hosted Summit of the Americas this past June proved to be a missed opportunity to craft a forward-looking hemispheric strategy. Washington's new initiatives toward the Americas, whether on immigration, supply chains or environmental and labor standards, have been driven by a domestic agenda. And overtures by Latin American countries to sign new trade deals with the United States have fallen on deaf ears. Whether intended or not, the message policymakers in the region have heard loud and clear is that the region isn't a priority for Washington.

What can shift this dynamic? Trying to force Latin American and Caribbean countries to choose between the U.S. and China—now the largest trading partner for most of the region's states and an increasingly important investor—is a nonstarter. And a 21st-century version of John F. Kennedy's Alliance for Progress, which promised billions of dollars in aid in return for economic and social reforms, would require more human and financial resources than the U.S. seems willing to commit.

Instead, the answer lies in a new framework built on consistent, sustained engagement by the U.S. around a truly hemispheric agenda. The Americas Partnership for Economic Prosperity announced by President Joe Biden at the Summit of the Americas may prove to be a valuable contribution. But more will be required. Specifically, the U.S. will have to implement a collaborative agenda using the bilateral and multilateral mechanisms across the hemisphere, in an effort to boost trade and investment relationships in support of market-based democracy and rule of law. This includes trade, tax and investment treaties; cooperative agreements on regulatory best practices; and public-private partnerships aimed at educating and training the region's workforce for the global digital economy.

An example of such building-block agreements, and where Chile and Boric come in, is the long-pending U.S.-Chile tax treaty. And its history shows why a renewed U.S. commitment is necessary. Washington has been bewilderingly slow in finalizing what should be a noncontroversial agreement with a key South American partner. Signed in 2010, it has been awaiting ratification since 2014. If the agreement didn't seem a priority a decade ago, there should be no question about its importance now. In addition to being a major player on renewable energy and sustainable use of maritime, agricultural and forest resources, Chile is responsible for about a quarter of the global lithium supply and more than a quarter of the global copper supply, minerals essential to the green and digital economies.

Bilateral income tax treaties have historically enjoyed strong bipartisan support in the U.S. Congress. These treaties essentially allow individual and corporate taxpayers of the two countries to avoid double taxation by setting agreed limits and sharing information regarding various sources of income. Such treaties enable U.S. companies to be more competitive in overseas markets and facilitate foreign investment in U.S. states to create jobs for U.S. citizens. In the case of Chile, ratification of the treaty will allow U.S. companies to benefit from a substantially lower tax rate on earnings.

Without the treaty, U.S. companies will be disadvantaged against Chinese and other global competitors that already have bilateral tax treaties with Chile. Once ratified, the treaty will ensure that U.S. companies continue to invest in mining projects and other significant ventures in Chile to the benefit of both Chileans and Americans.

At the same time, ratifying the treaty will send a clear message that the U.S. values Chile as a responsible economic and democratic partner, a message that will be heard beyond Chile's borders. Much has been made of a "new pink tide" in Latin America, but what seems to be driving this shift is less the attraction of leftist ideology and more the frustration of Latin American voters with leaders who are not delivering prosperity. Chile's 2019 protests, the messy constitutional convention that followed and the rejection by voters earlier this month of the draft constitution the convention produced are all symptoms of this frustration. Boric, who had supported the draft, now finds himself in a difficult position politically as he develops a second constitutional process with a fractured congress, while dealing with slow growth.

And Boric's problems are not unique. Leaders across the region, on both the left and the right, are struggling with post-pandemic economic and political difficulties, even as popular discontent resurfaces. Exhortations by the U.S. to choose democracy over dictatorship will not be enough, and a focus on the previous generation's left-right divide risks distracting from the real concerns people are expressing. Tangible measures such as ratification of the tax treaty with Chile are needed from the U.S. across the region to back leaders that show true democratic credentials, support rule of law and value private sector-led growth.

The U.S. Senate Foreign Relations Committee approved the tax treaty with Chile last March with strong bipartisan support. By ratifying it without delay, senators can send a strong message of support to Chile and to the region, with payoffs for American investors. While it might not capture headlines, it will benefit both countries, promote U.S. investment and reinforce the values that Americans share with Chileans, who continue to champion rule of law and private sector-led growth. And it will represent a meaningful step toward a new collaborative regional framework that puts the U.S. on offense in the strategic competition with China in Latin America.

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