

Pathways to Peace, Progress, and Public Goods:

Rethinking Regional Hegemony

By

Charles Ripley

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Graduate Supervisory Committee:

Roxanne Doty, Chair  
Sheldon Simon  
Lynn Stoner

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## ABSTRACT

The purpose of this dissertation is to study not only relations between Latin America and the United States, but also Latin American states with each other. It specifically aims to examine the extent to which the United States, the principal hegemonic power in the Americas, can play a constructive role by providing regional public goods. These goods include conflict resolution and economic progress. Although the United States has the potential to create such goods, it also has the potential to create public bads in the form of regional instability, political terror, and economic stagnation. This raises two fundamental research questions: Under what conditions can Washington play a positive role and if these conditions cannot be met, under what conditions can Latin American nations bypass the United States and create their own economic progress and conflict resolution strategies?

Drawing upon qualitative research methods and case studies that have attracted scant academic attention, this dissertation finds that through regional multilateral diplomatic negotiations, the United States can play a positive role. However, due to U.S. parochial economic interests and the marginalization of diplomacy as a foreign policy tool, these conditions rarely occur. This research further finds, however, that through flexible regionalization Latin American nations can bypass the United States and create their own goods. Supported by an alternative regional power, flexible regionalization relies upon supranational institutions that exclude the United States, emphasize permanent political and economic integration, and avoid inflexible monetary unions. Through this type of regionalization, Latin America can decrease U.S. interference, sustain political and economic autonomy, and open space for alternative conflict resolution strategies and economic policies that Washington would otherwise oppose.

This dissertation is academically significant and policy relevant. First, it reconsiders diplomacy as an instrumental variable for peace and offers generalizable results that can be applied to additional cases. Moreover, finding that Latin American countries can address their own regional issues, this study recognizes the positive agency of Latin America and counters the negative essentialization commonly found in U.S. academic and policy research. Finally, this research offers policy advice for both the United States and Latin America.

## DEDICATION

To my wife, Yunely, and son, Baby Charlie, for all their love, support, and inspiration;  
and to family and friends

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## LIST OF ABBREVIATIONS

ALBA	Bolivarian Alliance for the Americas (Alianza Bolivariana para los Pueblos de Nuestra América)
ARDE	Revolutionary Democratic Alliance (Alianza Revolucionaria Democrática)
ATFA	American Task Force Argentina
BCRA	Central Bank of the Republic of Argentina (Banco Central de la República Argentina)
BOP	Balance of payments
CACJ	Central American Court of Justice (Corte de Justicia Centroamericana)
CAFTA-DR	Central America Free Trade Agreement-Dominican Republic
CARICOM	Caribbean Community
CAS	Complex adaptive systems
CELAC	Community of Latin American and Caribbean States (Comunidad de Estados Latinoamericanos y Caribeños)
CEPR	Center for Economic and Policy Research
CIA	Central Intelligence Agency
COW	Correlates of War Project
CT	Complexity theory
DoD	Department of Defense
ELN	National Liberation Army (Ejército de Liberación Nacional)
ETA	Euskadi Ta Askatasuna

EU	European Union
FARC-EP	Revolutionary Armed Forces of Colombia-People's Army (Fuerzas Armadas Revolucionarias de Colombia-Ejército del Pueblo)
FDI	Foreign direct investment
FDN	Nicaraguan Democratic Force (Fuerza Democrática Nicaragüense)
FSLN	Sandinista National Liberation Front Frente (Sandinista de Liberación Nacional)
FTA	Free Trade Agreements
GDP	Gross domestic product
GTM	Grounded theory methodology
HST	Hegemonic stability theory
ICJ	International Court of Justice
IGO	International governmental organization
IMF	International Monetary Fund
IPE	International political economy
IRI	International Republican Institute
LAC	Latin America and the Caribbean
LDCs	Least developed countries
LoN	League of Nations
MERCOSUR	Common Market of the South (Mercado Común del Sur)
NAFTA	North Atlantic Free Trade Agreement
NATO	North Atlantic Treaty Organization
NG	National Guard-Nicaragua (Guardia Nacional)

NGO	Non-governmental Organization
NSA	National Security Advisor
NSC	National Security Council
OAS	Organization of American States (Organización de los Estados Americanos)
OECD	Organisation for Economic Co-operation and Development
OFII	Organization for International Investment
UN	United Nations
UNASUR	Union of South American Nations (Unión de Naciones Suramericanas)
USCIB	United States Council for International Business
USTR	United States Trade Representative
URR	Unremunerated reserve requirement
WTO	World Trade Organization
YATAMA	Yapti Tasba Masraka Nanih Aslatakanka

# CHAPTER 1

## INTRODUCTION

### **Introduction**

The purpose of this study is to examine the extent to which the United States, the principal hegemonic power in the Americas, can play a constructive role by providing collective goods for the region. These goods include conflict resolution and economic progress. Since this study finds that U.S. regional policy often fails to provide such goods, however, I further examine the extent to which Latin American countries can bypass the United States through their own regional initiatives and create their own collective goods.<sup>1</sup>

The inspiration for this research comes from personal experience. Living, working, and researching in Latin America for over a decade, I have witnessed the military, economic, and psychological power the United States exercises over the region. As a result of this extensive influence, the United States occupies a central and often negative place in the minds and conversations of Latin Americans. From university intellectuals to urban dwellers and rural folk, Latin Americans speak and write endlessly of not only the interventionist policies of the United States, but also the iniquitous power structure between them and their neighbor to the north. Within these accounts, however, there's a salient contradiction. The passionate contempt the United States often inspires in the Latin American people is paradoxically coupled with an admiration for the country's economic, technological, and democratic achievements, as well as a concomitant recognition that Latin American nations depend on the United States for

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<sup>1</sup> Although I recognize the diverse regional geography of the Americas, due to space and time constraints, I will use "Latin America" as an umbrella term for Mexico, Central and South America, and the Caribbean. I explain in detail the definition and role of public goods in Chapters 2 and 3.



advancement in these areas.<sup>2</sup> On the one hand, Latin Americans understandably criticize Washington for unjust intervention in their political, social, and economic affairs. This interference, many Latin Americans contend, is clearly beneficial for the United States, but detrimental for them. On the other hand, Latin Americans continue, as they have historically, to depend on relations with the United States for economic opportunities, diplomatic mediation, and a host of other benefits.<sup>3</sup> Nicaragua's relations with the United States reflect this contradiction. In 1984, the Sandinista government (1979-1990) lodged a formal complaint to the International Court of Justice (ICJ) against the United States for not only interfering in the country's domestic affairs and violating its sovereignty, which Nicaragua won in *Nicaragua v. the United States* (1984), but also for not maintaining relations by reducing sugar quotas, suspending aid, and finally imposing an economic embargo.<sup>4</sup> Nicaragua, under a left-leaning government, recognized both the good and bad involved in U.S. relations. In fact, most Latin Americans whom I have interviewed and held colloquial conversations concede the necessity of sustaining beneficial relations with their colossal neighbor, or "hegemon," to the north. Even the current "pink revolution" reflects this desire. South American presidents critical of U.S. influence,

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<sup>2</sup> In my time living in Latin America, I have found that these contradictory feelings often transcend Latin American ideological, economic, and geographical boundaries. That is, this admiration is not only limited to the wealthy elite; many leftist movements share this admiration. However, the Latin American left, although far from being a homogeneous group, recognize the importance with maintaining relations, but only on equal terms, not relations in which the United States dictates and imposes orders to its smaller and often weaker neighbors.

<sup>3</sup> Rubén Darío's famous poems "A Roosevelt" (1904) and "Salutación al Aguila" (1906) demonstrate the mixed feelings Latin Americans have toward the United States. In the first, the Nicaraguan poet lambastes Washington's interventionist policies throughout the hemisphere; in the other, Darío lauds the United States' progress and technological advancement.

<sup>4</sup> Sandinista refers to the movement that overthrew the Somoza Dynasty in 1979. The formal political party is named el Frente Sandinista de Liberación Nacional (FSLN). Many Nicaraguans identify with the movement, but not the political party. The name Sandinista comes from Augusto César Sandino (1895-1934), the revolutionary who fought U.S. occupation in Nicaragua in the beginning of the 20<sup>th</sup> century.

such as Bolivia's and Ecuador's presidents Evo Morales (2006 - present) and Rafael Correa (2007 - present), respectively, have indicated that they desire strong relations with the United States, but on more equitable terms.<sup>5</sup>

### **Research Problem**

This contradiction poses a particular problem for relations between Latin America and the United States. U.S. policy is capable of producing both public goods and bads for the Americas. Although the goods can provide conflict resolution, stability, and economic progress, the bads, which include subverting economic development, undermining regional institutions, and causing human rights abuses and political terror through direct intervention, can have disastrous consequences for the region. What is more, Latin American countries often have little recourse to protect themselves from the bads produced through U.S. policy. The case of Nicaragua again serves as an example. Although the Nicaraguan government used the ICJ to protect itself from U.S. intervention, Washington, without being forced to comply with the decisions, simply continued with its policies. The ten-year war cost the small Central American country over \$12 billion and the loss of tens of thousands of innocent Nicaraguan lives (Zamora 1996).

The ability of the United States to play such a pivotal part in Latin American affairs raises two fundamental research questions: a.) Under what conditions can the United States play a positive role in Latin America and if these conditions cannot be met, b.) under what conditions can Latin American countries bypass the United States and advance their own economic progress and conflict resolution strategies? Relying upon

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<sup>5</sup> The desire for equitable relations has been established in various interviews. For interviews by the new center-left leaders, see the documentary *South of the Border* (Stone 2009).

both qualitative and interpretive methods, as well as a number of case studies that have attracted scant academic attention, this research finds that through multilateral diplomatic mediation involving the United States Department of State, the United States is able to play a constructive role for the region.<sup>6</sup> However, due to U.S. private economic interests and the marginalization of State Department-led diplomacy these conditions are rarely met.<sup>7</sup> Latin American states, therefore, should engage in what I call “flexible regionalization,” a form of regionalism that involves permanent political and economic integration, yet avoids strict customs and monetary unions.<sup>8</sup> This type of integration is instrumental for Latin American peace and development for a number of reasons. First, it does not completely alienate U.S. regional intervention, which can be beneficial, but significantly reduces Latin American countries’ dependency on the United States. Second, flexible regionalization opens critical space for Latin American nations by allowing them to debate and consider economic and conflict resolution policies that Washington would otherwise oppose. Finally, it recognizes the inherent drawbacks of forming customs and monetary unions, particularly the loss of political and monetary independence (for an in-depth discussion on monetary unions in Latin America, see Ripley 2010b). Therefore, Latin American countries retain their own political and economic autonomy. Essentially, flexible regionalization allows Latin America to take advantage of the benefits regionalization without shouldering all the costs.

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<sup>6</sup> To demonstrate the objectivity of this dissertation, the author was surprised at this outcome due to the imperialist nature of U.S. foreign policy.

<sup>7</sup> The operationalization of the variables discussed here, such as politicization and marginalization will be discussed in chapter 3.

<sup>8</sup> Flexible regionalization is based upon the new regionalization taking place in South America, such as UNASUR, minus the common currency and monetary unions.

## Relevance and Contribution

This research is novel and contributive to the study of international relations and Latin American studies for a number of reasons. First, relations between Washington and Latin American nations involve a wide range of issues including human rights, economic development, regional institutions, immigration, commercial trade, technology and science, among other global and regional policies. What is more, as my quantitative analysis chapter reveals, there is a strong correlation between conflict in Latin America and U.S. regional intervention. As a result, aiming to identify not only conditions for peace and progress, but also practical policy suggestions can improve the lives of millions of people. Although the United States will never have a *Good Neighbor Policy* toward Latin America, a *Better Neighbor Policy* is a possibility.

Moreover, this study brings diplomacy back to the forefront of analysis. After the terrorist attacks of September 11, 2001 and the outbreak of two wars, academic funding and research has significantly increased their focus on issues related to terrorism. This “second wave” of terrorism research has become prominent in not only policy studies, but political science journals as well.<sup>9</sup> One study suggests that the number of refereed articles that have been published on terrorism since nine-eleven has actually doubled (Young and Findley 2011). This understandable, yet regrettable academic phenomenon is what I call the “militarization” of academic scholarship. The emphasis on military, terrorism, and counterinsurgency research is no trivial phenomena; for it privileges one

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<sup>9</sup> The “second wave” of terrorism research comes from the classification initiated by Robert A. Pape (2009). The second wave is the research conducted after September 11<sup>th</sup>, 2001, whereas the first is the aggregate study of terrorism carried out by non-state actors throughout the decades between 1970 and 1990.

research agenda over another, leading to the marginalization of vital studies, particularly diplomacy and peace research.

Political science, among other academic disciplines, however, has been reluctant to explore diplomacy in the first place. Diplomacy is a difficult variable to measure. As I explain more in-depth, it does not readily fit “normal science.” In fact, as this research demonstrates, it can serve as both the dependent and independent variable. In an attempt to make diplomacy fit into the quantitative positivist model, diplomacy is merely reduced to a mediation variable (for instance, see Regan and Aydin 2006). Although such research can provide insight, it neglects the complexity, involved interests, and battle over ideas and policy options. Nonetheless, despite many obstacles to deeply explore diplomacy, a number of qualitative pre- and post-9/11 studies demonstrate how state diplomacy continues to be a useful tool in conflict resolution, economic development, and other critical areas of politics (Stearns 1996; Jentleson 2001; Berridge, Keens-Soper, Otte 2001; Copeland 2009; Pigman 2010). Through the qualitative methods of process tracing and congruent testing, the research presented here finds that a number of little-known diplomatic initiatives between Latin America and the United States created or had the potential to create peace through state diplomacy.<sup>10</sup>

This research is also contributive because it challenges the established research on hegemonic stability theory (HST). HST is a body of literature that is closely related to this research project because the theory aims to determine the public goods hegemonic state powers are able to create for a particular region or even the world. Although

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<sup>10</sup> I use the term “state diplomacy” to connote diplomatic relations between states, often known as Track 1 diplomacy. Track II and Track III refer to the role of non-governmental organizations (NGO) and grass root movements, respectively. However, as parts of this dissertation demonstrate, both NGOs and grass-root movements will be influential in pressuring the state to take develop regional institutions and create peace.

Chapter 2 deals with HST in more depth, it is first worth noting that the HST research agenda has advanced valuable insight into how hegemonic powers create or fail to create regional and world public goods. However, HST has failed to capture the complexity of South-North relations due to the following reasons: 1.) The theory's exaggerated focus on world powers; 2.) its assumption that the state is a unitary rational actor; and 3.) HST's overuse of methodological individualism.

The study here, however, rests on the assumption that the state is not a unitary rational actor, but a vehicle for competing ideas within the U.S. government's departmental structure. These ideas have the potential to significantly influence policy decisions. Therefore, ideas matter. Essentially, there is no pre-given state interest. This is of particular significance since the field of international relations, particularly HST, has been dominated by a limited framework of microeconomics and methodological individualism that marginalizes the role of ideas and identities. "While the talk of the 'power of ideas' has at times carried considerable rhetorical force outside of academic International Relations," observes IR scholar Christian Reus-Smit (2009) on the state of the discipline, "such talk within the field has long been dismissed as naïve and even dangerous idealism" (231). Therefore, this study calls for rethinking how we address hegemonic stability and the provision of public goods.

This dissertation also contributes to the literature on bureaucratic decision-making theory. Examining the inter-bureaucratic dynamics of the U.S. government is far from a novel research agenda. For years scholars and journalists have documented the pivotal role competing bureaucracies and personalities have had over policy choices.<sup>11</sup> The

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<sup>11</sup> The research, both academic and journalistic, concerning these subjects is too great to do justice here; for many great scholars would be left out. However, two of the most notable and relevant here are Graham

novelty with my research, however, lies in its application to South-North relations. There has been little research on how the competition between departments affects developing countries. Furthermore, it has never been studied within the framework of hegemonic stability theory and the hegemon's capabilities to provide regional public goods and bads. As a result, this project advances a unique approach by providing a new model for understanding the essential role of a hegemonic power in relation with smaller states.

Furthermore, my dissertation addresses the many faces of hegemony. As Gramscian scholars remind us, hegemony is not only about coercion and leadership, but also the legitimization and perpetuation of elite interests. The United States, therefore, being the principal hegemonic regional power, does not only exercise hegemony over Latin America through military and economic coercion. As I detail later, a significant amount of U.S. academic scholarship perpetuates and legitimizes U.S. foreign policy interest to the detriment of not only the Latin American nations themselves, but to the development of policies that could create regional public goods. As a result, Latin American states need to create their own initiatives independent from the interests of the United States.

Most importantly, this research highlights the invaluable contribution Latin American countries have made for academic and policy research. This includes a wide range of areas such as the study of public goods, diplomacy, international law, and supra-national institutions. Since most U.S. and European academic research focuses on the role of great power politics (Schelling 1966; Bull 1995; Wight 1995; Craig and George 1983; Keohane 1984; Kissinger 1995; Bussmann and Oneil 2007) and only the negative

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Allison's seminal study on the Cuban missile crisis (1969, 1971) and Douglas Stuart's (2003, 2008) research on the passing of the National Security Act of 1947. Amy Zegart (1999) also offers an in-depth study of the bureaucratic struggles behind the 1947 Act.

events of developing nations (e.g. war, instability), the positive agency and contribution of intra- Latin American state relations remain underexplored. In fact, many prestigious and widely-cited academics fail to recognize any contributions Latin Americans can make for international relations. “. . . Latin American countries are takers, instead of makers, of international policy,” Robert Keohane (2001) writes, quite erroneously, “[t]hey have relatively little influence in international institutions” (211). However, my case studies counter this common negative essentialization—that is, Latin American nations inherently have negative and corrupt qualities—and demonstrate Latin America’s positive contributions to international relations.

### **Additional Cases and Generalizability**

Drawing upon a number of comparative case studies, this study is also important because its results can be tested on additional cases. Although more research is necessary, I have already discovered a number of cases that fit this research’s model. Other cases include the diplomatic maneuvering prior to the U.S. invasion of Grenada and Haiti in 1983 and 2004, respectively. In both cases State Department diplomacy, which appeared to be effective in decreasing conflict, was marginalized. If diplomacy had been prioritized prior to the assassination of Maurice Bishop in 1983 and the illegal invasion of Haiti in 2004, Washington could have supported the popular democracy and avoided the internationally condemned invasions. Finally, a salient case example entails the invasion of the Dominican Republic (1965), in which multilateral diplomacy, not the illegal invasion, was the instrumental variable in bringing back of peace and stability to the Caribbean nation. Furthermore, my research results are applicable to U.S. foreign policy initiatives beyond Latin America. During the Iraq War (2003-present), there were



contentious debates between the State Department and the Department of Defense (DoD) on how to implement plans for reconstruction. The DoD was able to marginalize the State Department and essentially manage reconstruction. This management, however, failed to be successful, measured by improving the living standards and quality of life for the Iraqi people and controlling the growth of violent insurgency. This case demonstrates the continued importance of researching the role of competing departments and policy ideas within the U.S. governmental bureaucratic structure.

Finally, this research is relevant to regional hegemonies in other geographical areas. As China continues to increase its power, to what extent can the country play a positive regional role? However, if China fails to provide public goods, under what conditions can the surrounding states bypass China and create their own stability and economic progress? This is of particular importance as China asserts itself as the principal mediator in the recent dispute between the two Koreas. Therefore, this project is research generating. Scholars and policy makers should continue advancing additional research on not only the extent to which other regional hegemons can produce public goods, but also the extent to which inter-bureaucratic debates and ideas play a significant role.

### **Policy Implications**

In addition to contributing to academic research, this dissertation has serious policy implications. First, its results lead to sound policy advice for the United States. Over the years, particularly after the failure of Iraqi reconstruction, contentious debate has emerged on the issue of not only strengthening the State Department, but also increasing its budgets at the cost of other bureaucracies. Even Secretary of Defense

Robert Gates has begun to recognize its pivotal role, suggesting that money could be taken from the DoD and funneled into the State Department. The findings here offer credence to the idea that strengthening the role of an independent State Department vis-à-vis other departments and advisors such as the Department of Defense and National Security Advisor would benefit regional policy.

This research also posits a number of suggestions for Latin American countries. Finding that the United States often fails to provide public goods, this study finds that under certain conditions, Latin American countries can bypass the hegemon through flexible regionalization. This type of regionalization recognizes not only the vast differences in interests and needs between Latin American countries, but also the successes of forming ad-hoc and permanent political and economic unions and associations. Therefore, flexible regional integration can assist Latin America with bypassing the United States and creating its own public goods.

### **Caveats**

There are a number of caveats related to this study. First, my emphasis on an unequal power structure does not mean that the United States exercises power equally across Latin America. The United States was able to invade Haiti in 2004, removing President Aristide from power. The United States would not be able to exercise similar military power, however, over Mexico or Brazil. Nor is power easy to define. Latin American countries have exercised power over the United States, often in creative ways. During his second time in office, Costa Rican President José Figueres (1953-1958) cleverly used culture and a mythical conception surrounding the country's democratic and social advancement to influence and exercise his own power over U.S. foreign policy

(Longley 1997). Washington, convinced by Figueres that Costa Rica was the Switzerland of Central America, curbed its interventionist policies in the country and allowed social and economic development through more socialist oriented policies such as land reform. Additionally, power, as Hans Morgenthau (1948) reminds us and I will discuss later, is ambiguous. It is not easily measured, quantified, or even identified. However, the United States does possess a potential military and economic power that is unmatched in the region. Stressing this hemispheric power structure, however, does not diminish addressing the complexity of Latin American relations with the United States.

I also recognize that Latin America is rich in diversity. Latin American nation-states are not only distinct from each other, but also from within. There are great differences in the economic, class, ethnic, and religious make-up and identities inside each country. The indigenous in Chiapas, where I have done research, identify themselves with different ancestors, political and social movements, and overall interests than those of the wealthy Mexican elite. A broad range of valuable scholarship has focused on Latin America in specific detail.<sup>12</sup> The goal here, however, is to find general conditions under which peace, stability, and economic progress can be advanced. This does not mean the findings here will be generalizable to every case study or sub-group. All peoples living in Latin America will not equally benefit from the public goods or even define public goods as I operationalize them here. In fact, this dissertation contributes to international relations, comparative politics and Latin American studies for generating future research that can address these points. Do the indigenous groups in Ecuador, for instance, experience public goods or do they, particularly more than other

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<sup>12</sup> The political, social, and economic research on specific Mexican, Central and South America, and Caribbean characteristics are too dense to detail here. However, a few notable pieces are the following: Van Cott (2008); Stokes and Cleary (2006); Yashar (1999).

societal groups, experience public goods? This would be an interesting follow-up research question to address.

## **Dissertation Overview**

This dissertation is broken down into nine chapters. The second chapter offers an overview of the literature and theory pertinent to this research project. Although one chapter cannot adequately cover these rich bodies of thought, I focus on the most relevant literature dealing with hegemonic stability theory, bureaucratic politics models, and diplomacy. Chapter 3 outlines and describes the specific methods upon which this research project relies. Chapter 4 measures U.S. intervention in Latin American affairs quantitatively. The purpose is to examine the extent to which the United States intervenes in the first place. In chapters 5, 6, and 7, I develop three main case studies and four mini-case studies to demonstrate the variance in U.S. foreign policy and the explanatory power of my theory (table 1.1). Based on qualitative methods, these case studies conclude that under the certain conditions noted above, the United States can provide various types of public goods. However, as the variance in U.S. foreign policy demonstrates in each case study, the United States often fails to meet these conditions. Chapter 8 aims to identify the conditions under which Latin America can develop its own public goods table 1.2). Drawing upon interpretive methods, this chapter finds that regional initiatives that exclude the United States can create the critical space<sup>13</sup> for successful alternative conflict and economic policies. Table 1.1 details the causal logic of the chapters that rely on mainstream qualitative research methods. Each case study demonstrates what I call either a “pathway to peace” or a “pathway to instability.”

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<sup>13</sup> I use the term “critical space” to stress the use of critical methods. Although I explain more throughout this study, critical methods do not rely upon the conventional use of variables, but, applied here, the space under which discourse, ideas, and policy become legitimated, justified, and implemented.

Table 1.1. Case studies, pathways, and variables

Case studies	Pathways	Independent variables	Dependent variables
Case study 1 (Pre-Cold War): Central American Court of Justice (1908-1918)	Pathway to peace (1907)	Multilateral diplomacy: State Department-Mexico-Central America	Public goods: Reduction of conflict through world's first supranational court
	Pathway to instability (1918)	Economic interests: U.S. foreign policy privileges bond holders over peace	Public bads: Destruction of court and regional instability
Case study 2 (Cold War): The Tale of Two State Departments	Pathway to peace (1979)	Multilateral diplomacy: State Department victory in bureaucratic war for diplomacy with Nicaraguan junta	Public goods: Avoidance of illegal invasion; path to regional negotiations and peace
	Pathway to instability (1981-1990) and (2004)	Marginalization: State Department loss in bureaucratic war for multilateral negotiations	Public bads: U.S. illegal intervention and political terror lead to regional instability in Nicaragua and Haiti
Case study 3 (Post-Cold War): U.S. financial interests and foreign policy	Pathway to instability (present)	Financial interests: Foreign policy privileges U.S. financial capital over development	Public bads: Instability in LAC by limiting economic policy choices
	Pathway to Peace and stability (1938, 1951, 2003)	Removal of financial interests: U.S. foreign policy privileges diplomacy over U.S. economic interests	Public goods: Peace and stability in Mexico, Iran, and Argentina, respectively

Table 1.2. Case study, critical space, policy alternatives

Case study	Pathways	Critical space	Policy alternatives
Case study 4: Latin American power initiates and supports La Declaración De Orinoco and UNASUR	Pathway to economic progress (2005-2007)	Alternative monetary fund: Opens space for alternative economic policies	Public goods: Break from orthodox neoliberal economic policies for sustainable development
	Pathway to peace (2010)	Alternative regional organization: Opens space for alternative conflict resolution strategies	Public goods: Decreased conflict between Colombia and Venezuela

Table 1.2 above explains the value of critical space and how it can lead to alternative conflict resolution and economic policy.

### **Conclusion**

The goal of this introductory chapter was to complete the following: 1.) Explain the research problem and questions; 2.) justify the research topic's undertaking; 3.) explain its importance in academic literature and foreign policy making; and 4.) outline the organization of the research project. The research problem is introduced in the form of a dilemma: On the one hand, Latin American countries rely on the United States for a number of benefits; on the other, the United States has the potential to create public bads. This dissertation, therefore, asks two challenging questions: Under what conditions can the United States maximize its abilities to create regional public goods and, and if it fails to do so, under what conditions can Latin American countries create their own? This dissertation finds that the United States Department of State is capable of being a vehicle

for public goods, but often fails to do so. Therefore, Latin Americans can create their own collective goods through “flexible regionalization.” Addressing these two questions are of particular importance since U.S. foreign policy affects the lives of the people throughout the Americas.

In addition to positing a valuable research question, this dissertation contributes to both the academia and public policy. This is accomplished by: 1.) Challenging established academic literature; 2.) emphasizing a pivotal role for diplomacy; 3.) bringing ideas and inter-bureaucratic competition to the study of North-South relations and the creation of public goods; 4.) advancing an interdisciplinary approach to offer a comprehensive understanding of U.S.-Latin American relations; and 5.) offering sound policy advice for both the United States and Latin America. As a result of the above mentioned, this dissertation will be a valuable study for international relations, comparative politics, Latin American studies, and policy analysis.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **Introduction**

The objective of this chapter is to engage in a discussion of the academic literature relevant to this dissertation. Hegemonic stability theory (HST) has been one of the most widely discussed theories in international relations. Economists, neo-realists, Gramscian theorists, and other scholars continue to draw upon the concept of hegemony to explain a wide range of international behavior such as war and peace, economic development, and state cooperation (Golub 2004; Lal 2004; Ferguson 2004; Maney, Woehrle and Coy 2005; Frundt 2005; Hinnebusch 2006; Dosch 2007; Bussman & Oneil 2007; Fukuyama 2008; Coyne and Ryan 2008; Pirama 2011; Goh 2011). Albeit scholars fail to agree on the degree to which HST can explain international phenomenon, it remains a central part of international relations scholarship. As a result, literature reviews regarding HST have been repeated elsewhere. Although my purpose here is not to repeat those accounts, I offer a brief overview and analysis on the literature to the extent to which it relates to this dissertation. This review here includes the following: 1) A general description of the theory; the origins of latent and conventional HST; 2) the five trends in the HST literature; 3) a review of other pertinent literature, particularly diplomacy and the bureaucratic politics model; and, 4) considering the strengths and weaknesses of the particular literature discussed, the required measures I will take to not only address the gaps in the literature, but also contribute to the field of international relations.



## **Definition of Hegemony**

The concept of hegemony has been a contentious subject of debate in the study of international relations. Little academic consensus exists on not only what exactly constitutes a hegemonic power, but also to what extent the United States remains one. Although space constraints prevent a comprehensive analysis of all the scholarly arguments, I will draw upon the literature and theory that applies here. Scholars and policy makers define a hegemon as a regional power that has the military might to dominate other states in the area. “No other state has the military wherewithal to put up a serious fight against it,” observes offensive realist John Mearsheimer (2001), “[i]n essence, a hegemon is the only great power in the system” (40).

But hegemony involves more than material capabilities and military intervention. The United States exercises power over the Americas through its trade, aid assistance, and overall economic intra-hemispheric relations. When Ronald Reagan entered the White House in 1981, for example, his administration conveyed clear disapproval for the 1979 Nicaraguan Revolution. The resultant policy was the suspension of aid and a trade embargo on crucial Nicaraguan exports such as sugar. Since Nicaragua historically depended on exports to the United States, the embargo crippled the nation’s economy. Additionally, in the early 1980s Washington succeeded in stopping over \$164 million in multilateral and bilateral credits, undermining Nicaraguan exportation by \$100 million, and even obstructing Mexican and Venezuelan petroleum importation from ever reaching the country (Ricciardi 1991). Therefore, U.S. policy towards Nicaragua demonstrated economic, as well as military, hegemony.

Charles Kindleberger (1973) and Robert Gilpin (1981) were the first academics to link the concept of hegemony to inter-state stability and economic openness. Studying the Pax Britannica and Americana, Kindleberger (1973) found that the hegemon, or leader, was not only the state whose power and resources could hold the economically liberal world system in place, but also whose decline would actually lead to a system breakdown and world depression.<sup>14</sup> A world leader was necessary to sustain a liberal economic system and a flow of credit and capital. Since Great Britain failed to provide such leadership, the world fell into the Great Depression (1929-1939) until the United States filled its new historic role. Both Kindleberger and Gilpin concluded that without the hegemonic role of the United States and institutions such as the World Bank and International Monetary Fund (IMF), countries would economically withdraw from the world and erect disastrous protectionist policies. In fact, Gilpin (1981) asserts that the Pax Romana, Britannica, and Americana all “ensured a system of relative peace and security” (144). Other ideas on the benefits of hegemonic stability soon followed, including decreasing the security dilemma, forcing state cooperation through regimes, and trading absolute sovereignty for peace.

Significant for this dissertation, a hegemonic power could also provide such goods by solving the collective action problem. Collective or “public” goods are essentially a type of positive externality that is non-excludable and non-rival. That is, consumers cannot impede others from consuming the goods and the cost of extending the goods to another consumer is zero. A good connotes some type of satisfaction upon consumption; a good is the direct opposite of a public bad, which entails a type of

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<sup>14</sup> It is important to note that Kindleberger (1986a) has expressed his dislike for the word hegemony; he prefers leadership. The economist argues that hegemony has connotations of the use of force, whereas he wished to emphasize characteristics related to leadership and persuasion.

dissatisfaction (Samuelson and Nordhaus 2002). Since goods are non-rival and non-excludable, other actors remain less inclined to invest in creating the goods because they can enjoy them without incurring the costs. Actors may also not invest in goods if the perceived costs outweigh the benefits (see Olsen, 1971, for an in-depth study on the collective action problem). A hegemonic power, however, can solve the collective action and free rider problem by incurring most of the costs smaller and poorer states either refuse or cannot take on themselves. Essentially, the hegemon compensates for the lack of contribution from other actors.

However, since there is little academic consensus on what HST exactly is, it is impossible to consider the theory as a single body of thought. Nonetheless, most scholars agree that the theory, in its most basic form, posits a hegemonic state power that creates collective goods for a particular region or even the world. As a result, academics have continued to build upon the theory Kindleberger initially developed. The vast research on HST involves both qualitative (see Golub 2004) and quantitative scholarship (see Bussman & Oneil 2007). Although research programs have often challenged the optimistic and simple tenants of the theory's argument, providing goods maintains the principal role for hegemony. Robert Keohane (1984), albeit noting the "simplistic starting point" of the theory, built upon the theory's assumptions to develop regime theory (39). Regime theory attempts to explain why states create and follow the rules of international institutions. Although Keohane (1984) stresses that the decline of a hegemon does not necessarily lead to a concomitant decline in international institutions and rules, he finds that the hegemon serves as the original initiator of a particular regime. For example, the United States is necessary to implement the institutions and conventions

on climate change. Without the indispensable hegemonic role, regimes such as the Kyoto Protocol are bound to fail (Keohane 2010). In fact, the theory has become so prominent that it has transmuted beyond political science. Sharma and Fayyaz (2000) borrowed HST in order to explain and predict the compensation packages doled out to chief executive officers. Sequeira (2009) further drew upon HST to explain the recent world economic liquidity crisis. The popularity of HST is not a surprise. “If the theory could be taken at face value,” Duncan Snidal (1985) wrote over two decades ago, “it would be among the most powerful and general in all of international relation” (579).

### **Conventional v. Latent Hegemonic Stability Theory**

Of the vast research that has been undertaken on the subject, I differentiate HST into two variants: “Conventional” and “latent” HST literature. The former involves academic scholars who purposely and consciously research HST as a legitimate theory in international relations, whereas the latter group, consisting of both U.S. policy makers and scholars, draws upon the theory’s major tenants without consciously citing the theory’s name directly. Understanding the two types of HST is crucial for not only this research project, but also practical foreign policy making. Political scientists often neglect the latent literature, most of which is more influential in the actual decision-making process of U.S. foreign policy. As a result, this research calls for a slight departure from the conventional research and a stronger focus on the latent.

The conventional HST literature can easily be traced back to Kindleberger’s 1973 book *The World in Depression: 1929-1939*. As mentioned above, this seminal study does not deal with political science, but economics.<sup>15</sup> Kindleberger’s main objective was to

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<sup>15</sup> It is worth noting that Kindleberger later conceded that he did borrow his idea of leadership from two political scientists. See Kindleberger (1986a) for more detail.

challenge the most common and established causations behind the Great Depression. The first, supported by the research of classical liberal economists such as Ludwig Von Mises, Allan Meltzer, and Nobel-prize winner Milton Friedman, was U.S. monetary policy. These economists focused on the national monetary policies, most of which they concluded exacerbated and perpetuated the crisis, taken by the U.S Federal Reserve, as well as the Smoot-Hawley Tariff Act (1930), which further deepened the depression by significantly curtailing free trade. Keynesian economists advance the polar opposite cause: not enough government involvement, especially in increasing national and world demand. For the followers of economist John Maynard Keynes, the government failed to significantly push the demand curve towards the right, which would have reversed the sharp decline in domestic, thus, international spending. According to Kindleberger, the two commonly cited explanations for the Depression were quite reductionistic. That is, using Kindleberger's (1986b) own words, they were "single-rooted cause[s]" (4).

Remaining skeptical and unsatisfied with these two prominent explanations, as well as a number of lesser known arguments, Kindleberger proposed an alternative model to understand the Great Depression. His explanation was predicated on a world leader. This "leader" harbors a special responsibility to keep financial and trade flows moving in the midst of a recession.<sup>16</sup> During the depression, however, the United States, not yet seeing itself as the world leader, failed to fulfill this vital role as its counterpart, the ailing Great Britain, did the century before. Therefore, a great depression ensued. However, with its entry into World War II and its role in shaping and supporting a liberal economic post-war world, the United States finally supplanted the previous leader and fulfilled its

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<sup>16</sup> The leader, according to Kindleberger, has a number of responsibilities, which he has added over the years. For a detailed list of the leader's responsibilities, see Kindleberger (1986a).

leadership responsibility. Political Science scholars later adopted Kindleberger's idea and turned it into hegemonic stability theory.

The latent literature, on the other hand, dates much farther back than the conventional research. Its origins are not so easy to trace. Nonetheless, one can find its development with U.S. independence.<sup>17</sup> During the war and its aftermath, the literature and discourse that dominated the newly independent states expressed a stark differentiation between the U.S. governmental system and world mission and old European monarchism. Although there were great debates, many of which turned into violent conflicts, over the nature of U.S. foreign policy and the extent to which the United States should intervene in world affairs,<sup>18</sup> the new country generally saw itself as a chosen people. "They saw themselves as harbingers of a new world order," writes diplomatic historian George C. Herring (2008), "creating forms of governance and commerce that would appeal to peoples everywhere and change the course of world history" (12).

The primary documentation of the time confirms Herring's account. "The cause of America is," wrote Thomas Paine in the midst of the War of Independence in 1776, "in a great measure, the cause of all mankind" (in Conway 1894, v). When the United States finally achieved independence, the idea of being a "City upon a Hill," made famous by three-time Massachusetts Bay governor John Winthrop and later used by both democrat and republican presidents such as John F. Kennedy and Ronald Reagan, became deeply

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<sup>17</sup> One should be able to find similar literature and discourse related to European intervention in Africa and elsewhere. A commonly cited example is Rudyard Kipling's 1899 poem "The White Man's Burden." However, since this research is on U.S. regional hegemony, the focus will strictly remain on the United States.

<sup>18</sup> For a comprehensive historical analysis on the major debates and conflicts over foreign policy during this time, see Perkins (1993).

ingrained in foreign policy making. A sincere belief has developed that U.S. intervention created regional peace, stability, and economic progress. “The 19 years that the United States was in Haiti were the 19 best years of Haiti’s existence,” Ivan Musicant, author of *The Banana Wars* (1990), argues, “[w]e left that country a far, far better place than we found it” (in Rohter 1994, 1). Larry Rohter (1994) of the New York Times observes:

In at least the material sense, many of the occupied countries benefited from the American presence. Highways, railroads, bridges, and streets were built; telephone, electrical and telegraph systems installed or extended; docks, ports and lighthouses modernized, and schools and hospitals constructed . . . Infant mortality rates fell and life expectancy rose (1).

Even Stephen Schlesinger and Stephen Kinzer, authors of *Bitter Fruit* (1990), an indictment of the United Fruit Company and its corrupt influence in overthrowing the democratically-elected Guatemalan President Jacobo Arbenz, concede that workers for the company “enjoyed better conditions than most farmers in Guatemala” (71).

The need for some type of U.S. regional presence in Latin American affairs remains a prominent tenant in current foreign policy decision making and a great portion of scholarly thinking (Desch 1998; Reid 2007; Crandall 2006 and 2008). Policy makers and scholars often find that, albeit conceding a number of mistakes, U.S. attention towards and intervention in the Americas generally produces public goods for not only the United States, but the region as a whole. These public goods are quite diverse. A non-exhaustive list includes democracy, civil rights, economic growth, and stability. The United States, therefore, must be present not only for such public goods to accrue, but to curb the production of public bads such as the rise economic protectionism and

authoritarianism. As a result, much of this literature not only draw upon the basic tenants of hegemonic stability theory, but takes for given that U.S. presence is equal to a public good.

### **Five Trends in the Hegemonic Literature**

At the risk of a gross oversimplification, I further identify five trends within the conventional and latent literature: 1) Hegemonic logical economism; 2) hegemonic savior; 3) hegemonic domination; 4) hegemonic mismanagement; and 5) hegemonic myth.<sup>19</sup> Although these trends offer insight into regional hegemony, they fail to capture the complexities involved in hemispheric relations because they often dismiss historical contingency, Latin American agency, and, most importantly, the competing policy ideas within the vast bureaucracy of the United States. What is more, much of the literature on U.S.-Latin American relations often suffers from a pathological adherence to specific theories, methods, and ideologies. A Marxist, for example, will only view relations within a Marxist ideological framework of thought. This is equally true of scholars and policy makers who adhere to a neoliberal ideology such as public choice theory.

The first trend, hegemonic logical economism (HLE), reduces research on HST to a limited framework of microeconomics. “Logical economism is the reduction of the practical interpretive framework of political action,” Richard Ashley (1983) points out, “to the frame work of economic action: the reduction of the logic of politics to the logic of economy” (472). This research agenda particularly relies on microeconomics methodological individualism. Methodological individualism presupposes an individual unit of analysis that makes rational decisions based on the cost-benefit choices he, she, or

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<sup>19</sup> Hegemonic logical economism is inspired by the work of Richard K. Ashley (1983). Hegemonic mismanagement was first introduced to me by David R. Mares (2001). The five trends are not mutually exclusive and, as with any literature review, do not provide a definitive and final account of the literature.



it faces. The actor merely aims to maximize its satisfaction. As Kenneth Arrow (1994) adds, “the individual decisions then form a complete set of explanatory variables” (1).<sup>20</sup> For HLE, the state serves as the unitary rational actor, behaving as an individual consumer in the market economy by measuring the costs, risks, and benefits related to its own behavior. The state, therefore, is a utility-maximization seeker that enters into complex relations when such relations are within its self-interest. This trend is amenable with the positivist epistemology and behaviorism because it allows a researcher to measure state behavior as an economist would measure the behavior of an individual consumer in the maze of a market economy.

This trend has experienced a fruitful academic life. Robert Keohane (1984), for example, employs self-interested methodological individualism and Coasian economics to demonstrate how cooperation can not only emerge under hegemonic regimes, but also continue during hegemonic decline. Robert Gilpin (1981; 1988) also draws upon a utilitarian microeconomic approach, particularly the law of diminishing returns, uneven growth theory, and the rational actor model, to advance a “systemic change” theory that explains the rise and fall of great powers. More recently, Thomas Pederson (2002) has advanced “cooperative hegemony.” Pederson argues that the hegemon often pushes for regional cooperation among states. Drawing upon rational choice and methodological individualism, Pederson aims to explain why a hegemonic power would put its resources and power behind a specific regional order. A hegemonic power shares its power with smaller states in order to form a regional group and structure, especially if the regional hegemon is weaker than a competing hegemonic power outside the region. The goal is to

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<sup>20</sup> Methodological individualism is more complex than the space allocated here allows. For an attempt to capture the terms complexity through a historical account, see Udehn (2002).

solidify a more secure position, visa vie the smaller states, in the world. As a result, regional stability occurs.

This trend, however, suffers from serious weaknesses because it limits potential research by constructing states as a rational unitary actors and reducing international interaction to microeconomics. Most importantly, it leaves little room for political philosophy and diverse methodological, epistemological, and ontological positions. Even Kindlberger (1986) criticized Keohane's *After Hegemony* (1984) for failing to go beyond the microeconomic framework of a self-interested rational actor model and including a more holistic philosophical approach. The economist reminds us, "[T]here is a normative element in politics and/or government, [a]long with political science, there is political philosophy" (844). Kindlberger continues to observe that foreign policy making cannot be simply reduced to the methodological individualism used to analyze the decision making of consumers.

The second trend is prominent in the U.S. policy making community, as well as some scholarly research, and tends to dominate the latent literature on HST. The hegemonic savior trend constructs the United States as a beneficial hegemonic power whose influence generally benefits the rest of the hemisphere. Within the informal HST literature, scholars and policy makers draw upon the major tenants of HST without formally using its name. Adherents to this approach exercise a taken-for-givenness that U.S. engagement in Latin America produces a public good in the form of economic development, democracy building, and stability. In fact, U.S. engagement often rescues Latin American countries, particularly from themselves, from a wide range of bads such as dictatorship, economic statism, and irresponsible leaders. In *Forgotten Continent*,

Economist Michael Reid (2007) laments that the United States has not taken more of an interest in Latin America in the post-Cold War world. Unfortunately, according to Reid, U.S. policy makers have been “unwilling to provide the kind of external sponsorship of Latin American development” (296). Echoing a similar sentiment, Latin American scholar Michael Desch (1998) contends that Latin America will yearn for U.S. engagement to the extent that the hemisphere will actually “miss the Cold War.” Based on the premise that U.S. policy makers are inclined to pay less attention to their southern neighbors with the Cold War’s demise, Desch (1998) argues that the consistent and coherent foreign policy engagement of that time is much more preferable to a simple lack of engagement.

In addition to influential journalists and scholars, policy makers draw heavily upon HST without formally using its name. Russell Crandall (2006 and 2008), a former academic who now works in the Pentagon, argues that U.S. military intervention in Latin American affairs has led to public goods, particularly in the form of democratic governance. Crandall (2006) alleges that U.S. invasions in the Dominican Republic, Grenada, and Panama actually benefited those countries by making them more democratic. This trend, however, fails to understand that less, not more U.S. engagement may actually be more beneficial for Latin American countries. Although there are certain policies and historical times in which U.S. hegemony has produced public goods, there are often benefits from U.S. neglect. Less engagement can lead to alternative paths of economic development and alternative strategies for conflict resolution. For example, with current U.S. attention in the Middle East, Latin American countries may experiment with different types of economic development than the conventional neoliberal model

assertively supported by the U.S. government. What is more, neglect can actually inhibit the development of public goods. As in the case of Panama, if the United States had neglected the country and not funded and strengthened Manuel Noriega in the first place, his ability to grow and develop into the powerful dictator he became would not have been so great and his removal would not have been necessary. Therefore, there may be public goods involved in being forgotten.

The trends that counter hegemonic savior are hegemonic domination and mismanagement. The former interprets hegemonic behavior as imperialistic, aimed to dominate a region, whereas the latter finds hegemonic behavior as ultimately inept, intrinsically unable to provide public goods. Since hegemonic mismanagement is not as developed as hegemonic domination, I will begin with the former. The hegemonic mismanagement trend does not necessarily judge the intention of the hegemon. Instead, this literature stresses that its efforts, even if well intentioned, leads to more problems than they solve. Living under a hegemon actually decreases the security of states, not increases it. What is more, hegemonic mismanagement avers that HST, particularly in its optimistic liberal form noted above (Pederson 2002), simplifies the world to the post-World War II era and exaggerates the need of a hegemon to curb the free rider problem in international affairs. Raymond Hinnebusch (2006), a proponent of this trend, observes, “[L]iberal HST overly generalized from and gave an excessively benign interpretation to a particular post-World War II episode of US leadership” (284). Hinnebusch (2006) goes on to demonstrate how the world hegemon, the United States, in trying to assert its hegemonic power in the Middle East, has led to “intensifying the Islamic world” instead of creating stability (308).

In fact, U.S. hegemony, this trend notes, can create more instability. David R. Mares draws upon the hegemonic mismanagement to quantitatively explain the increasing conflict in Latin America. Mares (2001) points out that the United States, in an effort to protect its perceived security interests, actually increases conflict by intervening in the Americas. For example, if the United States believed that a Latin American country was threatened during the Cold War, it would intervene, dragging other countries into the conflict. “[B]y forcing Latin American countries to become involved in the conflicts between the hegemon and recalcitrant state,” Mares (2001) points out, “the United States subjected those allies to conflicts that were not in their own interests” (79).<sup>21</sup>

Hegemonic domination has deep roots in leftist activism and scholarship. Lars Schoultz is one of the most prominent scholars associated with the domination trend.<sup>22</sup> Schoultz (1987) has advanced the most comprehensive and insightful research detailing the hegemonic domination the United States has exercised over the Americas. He first distinguishes between hegemonic control and a sphere of influence. Although Washington exercises more influence over European countries than Europe exerts over the United States, the role of the United States entails a sphere of influence, not domination. “[T]he United States is recognized as the glue that holds NATO together,” Schoultz (1987) points out, “this alliance-based power asymmetry is the essence of what is meant today by the term ‘sphere of influence’” (283).

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<sup>21</sup> It is important to note that Mares (2001) finds the hegemonic mismanagement theory more credible for the Cold War world.

<sup>22</sup> There are a large number of scholars and activists included in this trend. Although citing them all is not possible, see Petras and Morley (1994) and Chomsky (1994) for more information.

In fact, the United States has been historically reluctant to directly intervene in the affairs of both Western and Eastern European affairs. During and after the Cold War, U.S. policy makers refrained from intervening in crises such as those in Hungary (1953) and Czechoslovakia (1968). Even in the Post-Cold War world, the United States remained cautious with military intervention. The Clinton and Bush Administrations pushed for a European Community solution to the increasing conflict in the former Yugoslavia. However, when the EC was unable to speak and act with a consolidated voice, U.S. officials believed they had, however reluctantly, to get involved (Woodward 1995). Relations with Latin America, on the other hand, are based on domination. The United States asserts itself and intervenes in the domestic affairs more rapidly and aggressively than it would in other regions. Latin America, as the cliché goes, is the backyard of the United States.

Moreover, there is a cultural attitude that developed over the years. This attitude, one that associates Latin America with inferior qualities and characteristics, facilitates the hegemonic domination. Essentially, the industrious and advanced North Americans must teach Latin Americans how to be civilized.<sup>23</sup> Schoultz (1998) asserts that this cultural attitude became our “white man’s burden” for Latin America (xvi). “[A] hegemonic attitude developed gradually, so slowly that it went unnoticed until, by the end of the nineteenth century, the notion of controlling the behavior of Latin Americans,” Schoultz (1998) continues to point out, “seemed as natural to U.S. officials as it did to Thucydides” (xvi).

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<sup>23</sup> There is a copious and diverse body of literature indicating this common belief. Although this literature is too expansive to cite here, see Johnson (1980) to see how Latin Americans are socially constructed in U.S. cartoons.

Other scholars in this HST trend have also drawn upon culture to explain U.S. domination. These scholars, however, come from the Gramscian hegemony tradition (Cox 1983; Gill 1993; Slater 2004).<sup>24</sup> Although Gramscian and neo-Gramscian literature is too dense and complex to discuss here, the main idea is that the dominant social group exercises the cultural, moral, and leadership authority over a particular society. As result, the hegemonic group or idea, such as liberal capitalism, is tacitly accepted. This type of hegemony rules with consent, as well as force when one deviates away from the accepted mode of thinking and behavior. David Slater (2004), employing a Gramscian post-colonial analysis of north-south relations, demonstrates how the United States has been able to dominate Latin America not just with force, but tacit consent. The United States has constructed and propagated the belief that it provides the superior cultural, economic, and moral leadership for the hemisphere. Through the Latin American elite, this idea is disseminated throughout Latin America until, Slater avers, a counter-hegemonic movement develops against U.S. imposed hegemony.

The mismanagement and domination trends are clearly insightful. Their principal weakness is that they fail to recognize that under certain conditions the United States can actually play a positive role. For these scholars, U.S. policy incurs negative consequences, regardless. For a post-colonialist like Slater, the counter-hegemonic movement must be against neo-liberalism and U.S.-supported capitalist institutions such as the WTO and IMF. Although this may be partly insightful, Slater's argument fails to explain why countries, even leftist governments, continue to use the IMF and WTO to their benefit. Developing countries not only rely on the IMF for low-interest loans, but they also cleverly use the WTO to expose the hypocrisy of the United States and

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<sup>24</sup> Schultz (1987), although drawing upon culture, never directly cites a Gramscian influence.

European Union in areas such as farm subsidies. The domination trend also fails to acknowledge the times in which Latin American countries have looked toward the United States for protection or how some countries have actually used the U.S. government to their advantage.<sup>25</sup>

As for the hegemonic myth trend, HST is exactly that: A myth. These scholars observe that HST is merely a glorification of the United States, as if it is inherently different from other states. Isabelle Grunberg (1990) stresses the ethnocentricity behind HST. U.S. scholars are simply wrong to think that the United States is inclined to utilize its vast resources differently than other states. Although Grunberg is correct to point out that the United States often behaves in a similar fashion as other states, her argument fails to include the positive role the country has often exercised with its resource capacity. The European Recovery Plan, popularly known as the Marshall Plan, serves as an example. Therefore, under certain conditions, the United States has the potential to provide public goods. The objective, therefore, should be to identify these conditions.

### **The Bureaucratic Politics Model**

In addition to the trends of HST, research on inter-bureaucratic politics and diplomacy are relevant to this dissertation. I particularly build upon the bureaucratic politics model and more recent developments of diplomatic studies, both of which have advanced valuable research agendas.<sup>26</sup> Therefore, this research not only challenges, but

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<sup>25</sup> Longley (1997) serves as an example of Costa Rica was able to utilize the U.S. government to its advantage under the Figueres government (1953-1958). Other cases include Cuba under Castro.

<sup>26</sup> Although I focus on the role of ideas to the extent that they relate to diplomacy, I would be remiss not to note my indebtedness to the international relations literature that highlights the pivotal role ideas play in international relations theory. This literature comes from too many sources to cite here, including the work of post-modernists, constructivists, and mainstream qualitative scholars. For in-depth historical account of how ideas have developed in international relations theory and scholarship, see selected chapters in Burchill et al. (2009).



also builds upon established research agendas. As with HST, studying the bureaucracy of the United States continues to be a viable research agenda. The bureaucratic research can be traced back, however, to the pioneering work of Graham Allison. Allison's seminal studies on the Cuban Missile Crisis (1969, 1971) strongly suggest that the rational actor model (which he categorizes as "model I" in describing the decision-making process) cannot fully explain states' behavior. Advancing what he calls the bureaucratic politics model ("model III"), Allison (1969) argues that states simply do not necessarily act rationally in international politics. Governments are made up of bureaucracies, defined as "a network of interconnected departments and organizations designed to manage and administrate the operations of a state" (Genest 2004, 449). As a result, these bureaucracies have an effect over the decision-making process. Allison (1969) astutely observes that there is not just one "unitary actor" but, due to the complexity, decentralization, independence, competition, and hierarchical nature of the sprawling governmental bureaucracies, a host of players and personalities (707).

Instead of coming from a clear and calculated strategic initiative, policy stems from the bureaucratic environment in which one group "triumphs" over the other or the diversity of actors are "pulling in different directions" (Allison 1969, 707). This means the intentions, interests, and the relative position and power one has in what Allison calls "action-channels"—the channels through which players are able to influence decision making—all play a role. Policy, thus, is the result of, Allison (1969) concludes, "bargaining games," as well as "the power and skill of proponents and opponents of the action in question" (707, 708). In fact, after the game of politics is played and power

struggles between bureaucratic groups have been won, the policy might be something totally different from what the decision-makers intended (Allison 1969, 707).

Scholars have continued to build off Allison's work. His work has become so valuable that scholars outside the United States have aimed to apply his model to explain the foreign policy behavior of their respective countries (see, for example, Gámez 2001). Particularly relevant to this dissertation, Douglas Stuart (2003, 2008) suggests that the marginalization of the United States Department of State has led to a more militarized and unilateral foreign policy. According to Stuart (2003, 2008), the passage of the National Security Act (NSA) in 1947 became a pivotal turning point for the State Department, privileging other advisors and bureaucracies on matters of foreign policy. "As a result of the passage of the National Security Act," Stuart asserts, "a nexus of three new agencies—the National Military Establishment (NME), the Central Intelligence Agency (CIA), and the National Security Council (NSC)—displaced the State Department at the top of the Washington policymaking pyramid" (297).

Stuart's research is instrumental for international relations. Many scholars have argued, often correctly, that the State Department has been the propaganda arm of the United States Government. Under hawkish Secretaries of State such as John Foster Dulles (1953-59), the Department helped initiate the violent ousters of the democratically-elected Iranian Prime Minister Mohammed Mosaddegh and Guatemalan President Jacobo Árbenz Guzmán in 1953 and 1954, respectively. The Department also played a pivotal role justifying the Reagan Administration's (1981-1989) policies in Central America. Anti-Sandinista propaganda disseminated by the Department depicted the Nicaraguan government as "revolutionaries who openly embrace Marxist-Leninist

ideology” (U.S. State Department 1987, 3). Nonetheless, the State Department has been more inclined historically than other governmental departments to employ diplomacy as a tool to resolve international disputes, especially through the use of multilateral diplomatic mediation. Although hawkish presidents have often staffed the Department with political allies, this study has found that the State Department has often leaned toward diplomacy. This tendency has often pitted the Department against not only other agencies and policy makers to assert influence over the decision making policy, but also departments within the State Department itself. Therefore, in order to understand foreign policy, scholars must explore inter-bureaucratic dynamics.

### **Diplomacy**

Moreover, scholars have advanced a valuable research agenda on diplomacy.<sup>27</sup> Hans Morgenthau, the pioneering classical realist who has become associated with power politics, stressed a prominent role for diplomacy in international politics as early as 1948. He argued that diplomacy was vital for not only maintaining state interests, but also for initiating pacific conflict resolution. Specifically, Morgenthau (2006) stressed the prominent role European diplomats played in sustaining great power peace in the nineteenth century. In fact, lamenting that diplomacy had deteriorated at the end of the First World War, Morgenthau (2006) dedicated considerable research on not only detailing the tasks, instruments, rules, and significance of diplomacy, but how diplomacy could “be revived” (551). Other “realists” continued to value the role of diplomacy. George Kennan, known as the father of containment, often privileged diplomacy over more bellicose foreign policy initiatives and emphasized the many successes achieved by

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<sup>27</sup> The research on diplomacy is often little known and cited in the field of international relations, particularly in the U.S. academia.

the U.S. diplomatic core. For Kennan (1979), diplomacy, “contain[s] many positive aspects as well as negative ones” (91).

Later research on diplomacy, most of which developed within the context of the Cold War, focused primarily on the bargaining strategy of world powers. Thomas Schelling’s major contributions *The Strategy of Conflict* (1960) and *Arms and Influence* (1966) developed game theories of self-interest, bargaining, deterrence, and what the author calls “compellence.” Drawing upon economic theories and game theory, Schelling endeavors to explain how states not only aim to deter certain behavior, but also compel other states to carry out a specific behavior, the polar opposite of deterrence. More research on diplomacy followed, focusing principally on deterrence, compellence, and bargaining theory (Craig and George 1983; Bull 1977; Wight 1978; Kissinger 1996).<sup>28</sup>

Although insightful and valuable, this research suffers from significant weaknesses. First, scholars were occupied by great power politics and Euro-centric diplomacy. The only times the research focused on South-North issues was when peripheral countries had become deeply caught up in Cold War crises, such as the Cuban Missile Crisis (1962) and the Vietnam War (1955-1975). Otherwise, great power politics dominated the research. In *Diplomacy* (1996), for instance, Henry Kissinger dedicates a significant amount of space to European diplomacy and diplomats such as Klemens von Metternich (1773-1859) and the Congress System (1815-1914). However, he contributes little to U.S.-Latin American relations, most of which are reduced to simplistic Cold War stereotypes. “From Angola to Nicaragua,” Kissinger (1996)

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<sup>28</sup> I extend my apologies for missing the many contributions to not only diplomacy, but all research areas I aim to cover in this chapter.

contends, “a resurgent America was turning Soviet expansionism into costly stalemates” (787). Kissinger fails to offer insight about the complex nature of these revolutionary movements.

Second, much of this research has offered little insight into South-North relations due to its effort to mimic the natural sciences. One of the most prominent and notable scientific approaches to the study foreign policy and diplomacy is “strategic realism.”<sup>29</sup> Strategic realism is a research agenda involving the above-mentioned game theory and bargaining models. Although scholars who employ these methods do not form a homogenous group, the general movement relies on a microeconomic framework in which rational units engage in utility-maximization bargaining to avoid costs and gain benefits. The most prominent and well-known model is the prisoners dilemma. Strategic realism developed within the context of the Cold War in order to measure, explain, and predict the behavior of the super powers. With the end of the Cold War, this approach continues to grow in influence and scope, becoming a fundamental research program on which much of international relations research is based today.

South-North relations, however, are not completely reducible to this approach. The power differentials, just to name one reason, are far too great, particularly between the United States and the Central American republics and Caribbean islands. Schelling, one of the pioneers behind strategic realism, concedes that his research is not always fungible to all contexts. In *Arms and Influence* (1966), he warns: “With enough military force a country may not need to bargain” (1). As a result, relying on a method that assumes a modicum of symmetrical power would not be appropriate for this project. Essentially, the raw military and economic power differentials are too great to

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<sup>29</sup> The term strategic realism is borrowed from Jackson and Sorenson (2007).

automatically enter into reciprocal and game theory-oriented bargaining structures. In fact, most of the research on conflict and cooperation presupposed symmetric power structures, making theory development fungible for only contexts such as the Cold War and the Congress of Vienna.

Finally, the diplomatic research that has been advanced dismisses the contribution of the poorer and weaker geographical areas of the world. Regions considered “Third World” could actually offer great insight into the development of diplomacy, international laws, and supra-national institutions. Being inattentive to diplomatic successes in Latin America and failing to recognize their positive agency in many world events not only marginalizes important contributions, but contributes to the negative essentialization many U.S. and European scholars have for the region. However, as I point out in the case on the Central American Court of Justice, the world’s first supra-national court can contribute significantly to our understanding of these subjects.

More recently, a number of scholars have tried to revive and reinvent the research on diplomacy (Stearns 1996; Jentleson 2000; Berridge, Keens-Soper, Otte 2001; Copeland 2009; Pigman 2010). A good starting point for this brief review can take the form of a question: What exactly is state diplomacy in the first place? Diplomacy is conventionally defined as a source of power that allows states to carry out their objectives without relying on military force (Berridge 2002). Diplomatic approaches also exhibit a number of essential characteristics particularly inter-state communications, official and non-official negotiations, and information gathering (ibid). However, as I will show in the new literature, scholars not only draw upon the conventional definition, but try to expand and reinvent it as well.

As in other fields of scholarship, research on diplomacy is quite diverse and dense. Although a complete review of the current research agenda on diplomacy is beyond the scope of this chapter, there are a number of related themes pertinent to my research project. First, scholars assert that academics and policy makers must revive and empower diplomacy as a fundamental tool of foreign policy. Diplomacy has attracted less attention over the years not only from academics, but policy makers as well. As Stuart (2003, 2008) reminds us, other bureaucracies have marginalized the State Department, the primary agency in charge of carry out diplomacy. As a result, this has led to a more unilateral and militarized foreign policy agenda. What is more, as I mentioned in the introduction, there has been a militarization in post-9/11 academe. Research focuses on insurgency and counter-insurgency in lieu of diplomatic solutions. Both the academics and governmental policy makers, it can be argued, have marginalized the role of diplomacy. Second, the field of diplomacy is not always reducible to the normal sciences. Studying diplomacy requires a multi-methods and interdisciplinary approach. It is not easily amenable to positive quantitative analysis. As political economist Geoffrey Pigman (2010) reminds us, “Although its [diplomacy’s] effectiveness is difficult to quantify, diplomacy’s effects are felt ever more powerfully” (136-137). However, this does not mean that scholars cannot identify the conditions under which diplomacy may work. Scholars can study diplomacy as a major independent variable in creating peace (Steiner 2004).

Moreover, diplomacy cannot be politicized. The problems associated with politicizing foreign policy initiatives has become a central theme in policy-related scholarship (Williams 1959; Stearns 1996; Bar-Joseph and McDermott 2008; Simon

2009). Stearns (1996) points out that albeit the Rogers Act (1924) was able to professionalize diplomacy through decreasing political patronage in appointments and creating the Foreign Service, the politicization of diplomacy remains a dangerous element. “Politicization of diplomacy may be superficially gratifying to an administration,” Stearns (1996) asserts, “but it is rarely healthy for its policies” (53). Politicizing diplomacy is defined as the indoctrination of diplomats (Stearns 1996). In lieu of collecting information and advancing policy advice objectively, diplomats carry out their duties within the constraints of a particular doctrine such as Cold War containment. The information collected and policy analysis recommended are made to fit this parochial view of world events. An example of politicization is the appointment of William Casey to head the Central Intelligence Agency (CIA) in the 1980s (Bar-Joseph and McDermott 2008; Simon 2009). Casey requested CIA officers to find a Soviet influence in Central America. Although this was a legitimate mission, Casey followed stating that he did not want to know the contrary if the officers failed to find the information he wanted (Simon 2009). As a result, the politicization of bureaucratic agencies can have disastrous consequences for the decision making process.

Finally, scholars observe that we need to expand the scope of diplomacy. Diplomacy cannot parochially focus on matters of defense and security. It requires an understanding of human development, alternative paths of progress and economic development, and the legitimate grievances and discontent felt by those in impoverished countries. Copeland (2009) specifically advances a reinvention of diplomacy based on “guerilla diplomacy.” This innovative diplomatic approach emphasizes diplomatic functions not found in the earlier research of Morgenthau and Kennan. These functions



include focusing on the role of R&D, alternative forms economic development, scientific technology, poverty, societal discontent, and the digital divide. Copeland's approach, which I discuss later, is instrumental for addressing the post-Cold War case studies.

Recent literature, however, has continued to dismiss the agency of developing countries. Apart from a few exceptions, diplomacy is constructed as a top-down structure when studied within the context of North-South relations. Additionally, there is little focus on the diplomatic relations between Latin American countries. However, initiatives such as the CACJ, the Esquipulas Accords in the 1980s, and more recently the Union of South American Nations (UNASUR) and the Bolivarian Alliance for the Americas (ALBA) can demonstrate how Latin America may not only contribute to diplomacy, international institutions, and regionalization, but also bypass U.S. hegemony. Therefore, in addition to challenging and building upon established research agendas, my study aims to include the pivotal role of Latin American agency.

## **Conclusion**

The goal of this chapter was to offer a review of the relevant literature pertaining to this dissertation.<sup>30</sup> Drawing upon HST, the bureaucratic politics model, and diplomacy, this research aims to not only address the gaps and weaknesses of the literature, but also build upon its strengths and contribution. Considering the literature review above, this will require the following: 1.) Moving beyond the state as the unit of analysis; 2.) privileging ideas over the rational actor model and methodological individualism; 3.) placing diplomacy in the forefront of analysis; 4.) punctiliously analyzing inter-bureaucratic dynamics; and 5.) addressing the marginalization and

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<sup>30</sup> It is important to note that in the subject of Latin American regionalization does require a brief literature review. This review can be found at the beginning of its respective chapter.

misconceptions many scholars and policy makers harbor toward Latin America and the Latin Americans' abilities to contribute to solve the world's, as well as their own, problems.

## **CHAPTER 3**

### **RESEARCH METHODS**

#### **Introduction**

The goal of this chapter is to explain and justify the research methods I use to address my dissertation research problem. This study relies on the framework of complexity theory. The subject of U.S. foreign policy and the provision of public goods and bads is complex and challenging, involving different levels of interaction among various competing and cooperating actors. As a result, this research requires a multi-methods and multidisciplinary approach in order to offer a comprehensive, yet not final or definitive, understanding of U.S.-Latin American relations. Complexity theory is amenable to this research approach.

This dissertation relies on a number of methodological, epistemological, ontological, and theoretical methods and procedures commonly not found together in one dissertation. These include the following: quantitative analysis, mainstream qualitative methods, interpretive methods, multinational secondary and archival research, and ethnography. Although relying on such a diversity of methods is unorthodox, complexity theory provides a facilitative framework for this dissertation. In order to explain my methodological choices, this chapter consists of the following: 1) A summary of complexity theory; 2) an explanation of how complexity theory relates to my methodological approach; 3) a brief overview of the hegemonic epistemological, ontological, and methodological modes of inquiry in international relations; and 4) a detailed analysis and justification of the methodological approaches upon which this dissertation relies.

## **Complexity Theory**

What is complexity theory (CT) and how does it relate to the research presented here? CT is far from a homogenous movement or single body of scholarship. Nonetheless, scholars who work with this approach agree upon a number of related assumptions. First, the political, social, and economic phenomena academics and policy makers address have varying degrees and scales of complexity that involve emergent properties, complex adaptive systems (CAS) and a large number of independent and interdependent players. Emergent properties are essentially the different parts of a system that create a collective behavior otherwise unattainable when the parts are on their own. Emergence requires an understanding of smaller-scale relations that affect the overall collective behavior in an emergent system (Bar-Yam 2005 and 2011). As Yaneer Bar-Yam (2010) points out, it entails how macroscopic behavior may arise from the microscopic behavior.

These interactions, however, are not static, but dynamic. The actors are always learning, evolving, and adapting to the changing environment in which they find themselves. Adaptive systems can include any range of biotic life such as animals, plants, and humans. Humans learn, but even plants react and adapt to their surroundings by growing around all obstacles (Bar-Yam 2005 and 2011). Different systems also have different levels of complexity. A hierarchical top-down linear system that controls collective behavior decreases emergent behavior and ultimately leads to lower levels of complexity. An example is a dictatorship that curtails individual interactions. On the other hand, the United States, which is broken down into so many interacting subgroups—states, districts, class, and so on—is the quintessential complex system.

Moreover, within an environment of complex adaptive systems there are ongoing balances between order and disorder. Orderly phenomena are more knowable, controllable, and predictable than disorderly ones. A commonly cited example of disorderly phenomena is the modeling of weather patterns by Edward Lorenz (Gleick 1987; Mitchell 2009; Geyer and Rihani 2010). In the early 1960s, Lorenze found that small even infinitesimal changes in his modeling led to major shifts in weather patterns. However, in Lorenz' research design, small changes were only expected to lead to small alterations in pattern outcomes. "Cause did not lead to effect. Order was not certain," Robert Geyer and Samir Rihani (2010) point out, "Chaos/complexity was an integral part of physical phenomena" (16). This pivotal discovery questioned common research designs and forced scientists to take what came to be known as "chaos theory" as a serious phenomena.<sup>31</sup>

Finally, the classical logic of linear models based on orderly Newtonian paradigms often fails to be an adequate methodological approach to capture this complexity.<sup>32</sup> Geyer and Rihani (2010) call the Newtonian paradigm the "paradigm of order" (12). The paradigm of order is based on linear and generalizable cause-and-effect processes that demonstrate predictable and deterministic patterns. An example of the paradigm of order is modernization theory. Modernization theory presupposes a linear path of economic development. Walt Rostow's influential book *The Stages of Economic Growth: A Non-Communist Manifesto* (1960) embodies this orderly linear thinking by

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<sup>31</sup> There had been research indicating the existence of chaos theory before Lorenz' work. For an in-depth study on the previous research as well as more on chaos theory, see Lorenz (2001) and Geyer and Rihani (2010).

<sup>32</sup> The story of how the Enlightenment, Cartesian rationalism and Newtonian order and universal laws have influenced the scientific method has been told many times before. The objective here is not to repeat them. For an in-depth analysis, see Geyer and Rihani (2010).

delineating five stages to growth: The traditional society, preconditions for take-off, take-off, drive to maturity, and age of high mass consumption. However, linear predictable patterns failed to emerge, demonstrating the absence of predictable order. Most of the cases Therefore, complexity theory stresses that phenomena exhibit different extents of chaotic-orderly, uncertain-predictable, and complex-reducible behavior, much of which are not easily understood as predictable linear patterns.

As a result of the above mentioned assumptions, CT researchers argue that phenomena under study are not always reducible to mainstream methods. Scholars approach this methodological conundrum in a number of different ways. For the purpose here, I identify two variants of CT. The first variant is hard CT, identified with the research and computer modeling of physicist Yaneer Bar-Yam. The second is soft CT, associated with the work of social scientists Robert Geyer and Samir Rihani. Both variants of complex theory have advanced fruitful research programs.

Hard CT has made significant progress in understanding and explaining crucial global problems. These include ethnic violence (Lim, Metzler and Bar-Yam 2007), education (Bar-Yam 2010), and military involvement in the post-Cold War world (Bar-Yam 2003). This work is carried out through advanced computer modeling and algorithms that allow the researchers to capture complex elemental interactions and explain the collective behavior that arises. For hard CT scholars, computer simulation offers a more comprehensive analysis of CAS than those offered by traditional econometric tools and procedures. Therefore, albeit recognizing the difficulties of controlling and predicting social, political, and economic environments, these scholars employ computer models and complex systems statistical tools as a vehicle to bypass

these difficulties. Hard CT scholars then aim to explain and predict a wide range of phenomena, including financial management (Kemper 2004), ethnic conflict (Lim, Metzler and Bar-Yam 2007), and even the recent waves of protests in Egypt (MacKenzie 2011).

This dissertation, however, identifies more with soft CT (from herein defined simply as complexity theory or CT). Albeit CT shares hard CT's criticisms for orderly linear methods, it goes beyond hard CT to extend its critique to the straightjacket orderly scientific positivism has placed in social science research. This is because hard CT scholars, particularly physicists, biologists, and other academics from the hard sciences, are much more inclined to regain the control and predictability of empirical research than scholars from the social sciences. They rely on computer modeling, which is inclined to reduce research to the positivist model of research. "[W]orld modeling falls into the very trap in which positivism ensnares every inquiry," Richard Ashley (1983a) pointed out decades ago, "the trap of mistaking the dominant order of things for the singular, necessary, and objectively given order of things" (530).<sup>33</sup>

In advancing a more penetrating critique, however, CT scholars recognize that predictability, certainty, and linear patterns of development are much more difficult to discover in research outside of the natural sciences. Imposing scientific positivism on nearly every research problem we address regardless of its levels of complexity can hinder our ability to advance research, particularly in international relations (Tezcan 2006). In fact, the failure of the paradigm of order has prompted a number of CT scholars to question the ability to develop natural-science-like laws in the social sciences.

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<sup>33</sup> It is important to note that Ashley (1983a) further argued that modeling did not necessarily have to go in the positivist direction. However, he never expanded on this idea.

“Yet, the diversity and constantly evolving nature of complex systems,” Rebecca Dodder and Robert Dare (2000) observe, “seems to place a limit to the amount of generalizable ‘laws’ that can be derived through complexity” (12). In lieu of objective laws found in the natural sciences, we may be able to draw valuable lessons from our research.

### **Positivism and International Relations**

Although the story of positivism and how it relates to political science has been retold many times before, a general overview is worth retelling. As mentioned in the previous chapter, positivism is related to the scientific method of the natural sciences. The scientific method stresses a number of essential characteristics. These include null and alternate hypotheses, empirical testing, replicable and falsifiable research designs, causal analysis, methodological individualism, rational actors, predictability, operationalized variables and indicators, and generalizable experimental results. A number of assumptions accompany the scientific method. Those worth noting are objectivity and rationalism. The former assumes that the researcher, subjects, and “facts” are independent from each other, whereas the latter avers that the world is knowable, controllable, and predictable through objective research.

Although positivism has been a part of political science since the turn of the last century (Sylvan 1991; Bond 2007), the behavioral movement brought the approach to international relations in the 1960s. One of the most prominent behaviorists to celebrate and employ the positivist scientific method was David J. Singer. In a series of articles, Singer, along with Karl Deutsch, not only employed positivism, but also lobbied on its behalf. In “The Relevance of the Behavioral Sciences to The Study of International Relations” (1961), Singer advanced the case for the scientific movement, encouraging



students and professors to “to utilize—with appropriate caution and discretion—the methods, findings, and models of these [other] disciplines” (334). Three years later, Singer and Deutsch (1964) applied scientific quantitative methods to IR by quantifying the balance of power scenario in world affairs. Designating the number of powers as the independent variable and international stability as the dependent variable, they found that an increase in the number of nation-states had a stabilizing effect on international conflict. In fact, drawing upon assumptions from microeconomics and utilizing statistical graphs, they posited a causal chain of analysis amenable to positivism:

Ushering positivism into the field of IR culminated in the “Great Debate” between science and traditionalism. Scholars supporting each approach engaged, often acrimoniously, in debates over the applicability of the scientific method to international relations. The intellectual exchange between Hedley Bull, who favored the traditional approach based on history, philosophy and the humanities, and Morton A. Kaplan, who supported the scientific approach, personified this debate. Bull (1966) contended that the mathematical and causal logic of positivism would hinder international relations by undermining the substance, moral questions, and overall progress that had advanced the field. Kaplan (1966), however, concluded that the traditionalists “understand neither the simpler assertions nor the advanced techniques employed by the newer methods” (20). Adherents to methodological positivism won a major battle with the publication of Kenneth Waltz’ seminal study *A Theory of International Relations* (1979), which solidified a positivist, structural, and causal-oriented approach to the study of international relations. The book’s major appeal lied in its creation and legitimization of

a research agenda based on a microeconomic, thus, “scientific” approach to international relations.

Although debating is commonly associated with open democratic systems, the debates in political science, particularly international relations, have paradoxically led to a rigid hierarchical and authoritarian system. This happened for a number of reasons: 1.) Creating a winner-loser scenario, positivism, the supposed winner, became the dominant mode of inquiry, whereas traditionalism and related methodologies became marginalized; 2.) adopting positivism, political scientists relied on a very narrow approach based on a limited understanding of econometrics and microeconomics; 3.) having an undisputed dominant method led many academics to overlook the criticisms that came from not only the social sciences, but the hard sciences as well; and 4.) forcing all social, political, and economic phenomena to fit “normal science,” research lost valuable insight that could have been gained with other methodological and epistemological modes of inquiry.

Despite the disadvantages of having a hegemonic approach, positivism, particularly in quantitative form, came to dominate the discipline. With the support of many mainstream scholars and peer-reviewed journals, particularly the influential American Political Science Review (APSR), the scientific approach became legitimized and solidified as not only the best, but the only method of inquiry for the discipline. Keohane, King, and Verba (1994) reinforced strict positivism in *Designing Social Inquiry: Inference in Qualitative Research* (DSI). The authors took the templates and tools for quantitative analysis, specifically econometrics, regression analysis, means and variance testing, large-N research designs, and probability methods,<sup>34</sup> and applied them rigidly to political science. DSI concluded that good theory and methods “depend upon

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<sup>34</sup> For an in-depth review of DSI, see Collier, Seawright, and Munck (2004).

rules of scientific inference” (34). Other messianic positivists have continued to serve as the “gate keepers” of the discipline.<sup>35</sup> Prominent scholars Jeffrey Frieden and David Lake (2005), for instance, contend that progress in the field of international relations can only be linked to the positivist methodological framework. “Progress in the study of international politics depends on systematic, rigorous theory and empirical testing,” they claim, “International Relations is most useful when scholars can identify with some confidence the causal forces that drive foreign policy and international interactions” (136).

The dominance positivists have held over the discipline fomented a methodological and epistemological backlash. This backlash came from a number of different scholarly groups. Mainstream qualitative scholars challenged the alleged superiority of quantitative methods (Ragin 2000; Brady and Collier 2004; Gerring 2004; Bennet and George 2005). Constructivists attacked the materialism and rationalism assumptions of mainstream positivism (Wendt 1987, 1992 & 1999; Ruggie 1993). Interpretivists emphasized the contribution of researching influential contextual features such as meaning, symbolism, and “semiotic practices” (Weeden 1998, 1999, 2002 & 2009, 81). Post-modernists problematized the “neutrality” of the theoretical and ontological research in international relations, challenged the ahistorical and structural determinism of positivist research, and began to address crucial questions that did not fit the common cause-and-effect epistemological framework (Ashley 1983a, 1983b and 1984; Ashley and Walker 1988; Doty 1993; Weber 2001; Hansen 2006). Finally,

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<sup>35</sup> I borrow this term from Tezcan (2006).

ethnographers have more recently emphasized the crucial contribution of immersion politics (Schatz 2009).<sup>36</sup>

Even before much of the backlash took place, a number of mainstream scholars had recognized the limits of positivism. Many subjects were too complex and uncertain to fit neatly within the scientific method framework. O'Donnell, Schmitter and Whitehead (1986), for example, conceded that positivism failed to be an appropriate universal approach to all political phenomena under study. In their seminal study *Transitions from Authoritarian Rule*, they were unable to apply “normal science” to capture the complexities of democratic transition. “We believe that this ‘normal science methodology’ is inappropriate in rapidly changing situations,” O'Donnell and Schmitter point out in *Tentative Conclusions about Uncertain Democracies* (1986), “where those very parameters of political action are in flux” (4). They found that the transitions were outside the realm of certainty, order, and predictability, essential attributes of normal science.

This seminal study was pivotal for research because it challenged the minimalist approach. The minimalist approach was popular because it was amenable to the scientific method. Scholars built upon Robert A. Dahl's research *Polyarchy* (1971), which quantified and measured democracy with two primary variables: elections (contestation) and the chance for the opposition to win (participation). Scholars, therefore, could readily quantify and run statistical methods to find if, for instance, economic development was an influential variable determining democratic outcomes

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<sup>36</sup> As with most categorizations in this dissertation, the ones mentioned above come with strong caveats; I use these groups merely as a vehicle to grasp how the different criticisms arose. They obviously do not capture the complexities of the scholars mentioned, many of whom may not agree with such categorization in the first place.

(Przeworski et al. 1996 and 2000). There was a price, however. The minimalist approach, albeit reducible to orderly science, failed to capture the complex picture of democratic transition and consolidation. In addition to O'Donnell and Schmitter, this prompted other scholars to begin to privilege complexity over scientific methods (see Linz and Stepan 1996). Criticisms of positivism and econometrics, often unknown to political scientists, have also come from a number of different sources, including eminent scholars involved in the hard sciences, economics, and policy making (Leontief 1971; Arthur 1990; Rihani 2003; Swann 2006).<sup>37</sup> Samir Rihani, who worked on Middle East developmental projects for decades, recognized that many of the computer models “in vogue” failed to achieve most goals. “The aura of order, predictability and control over long-term events were intoxicating,” Rihani (2002) points out, “[d]evelopment was seen as a finite and tidy process that obeyed known universal laws” (xii, xiv). Rihani (2002) concludes, however, that most of the control and predictions regarding economic development never came to fruition. In fact, even John Maynard Keynes questioned the use of econometrics and the development of economics as a natural science (see Moggridge 1992).

### **Complexity Theory and International Relations**

Building off the weaknesses of the paradigm of order and mainstream methods, CT scholars have advanced valuable research programs. A number of scholars have already recognized CT contribution to international relations (Won Min 2003; Rihani

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<sup>37</sup> For an in-depth analysis of the criticisms of econometrics, which is beyond the scope of this chapter, see Swann (2006).

2003; Tezan 2006; Geyer and Rihani 2010).<sup>38</sup> Specifically for my purposes, complexity theory is amenable to this research project for a number of reasons. First, CT recognizes that not all social, political and economic phenomena under study are reducible to the paradigm of order or the same methodological, epistemological, and ontological modes of inquiry. This is crucial for my research project because parts of my research question are amenable to a particular method whereas others are not. For instance, I rely on quantitative analysis to test for U.S. intervention in Latin America. However, quantitative methods are not appropriate to deeply explore the use of diplomacy in Latin America, for which I rely on mainstream qualitative analysis. Qualitative methods allows for an in-depth study of all the interacting variables that influence the apparatus of foreign policy decision-making.

What is more, the principle factors are not fixed or static over time. They are adaptive to the particular environment, using different discourse, methods, and means to influence policy and diplomacy for their own interests. “As US actions in Haiti, Venezuela and Cuba demonstrated, Washington still had a penchant for destabilising governments it saw as adversaries, whether or not they were democratically elected,” William Leogrande (2007) astutely observes, “the cruder method of fomenting military coups had been replaced by financing and training civilian opponents, but the aim was still the same” (384). In the removal of President Jean-Bertrand Aristide, the democratically-elected president of Haiti, the creative maneuvering by influential actors such as the International Republican Institute (IRI) was instrumental in undermining Haitian democracy. Learning from past errors in trying to overthrow governments in

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<sup>38</sup> Many CT scholars note that the recognition of CT has already been deeply ingrained in international relations research, though the name is not directly used. Notable research includes Allison (1969, 1971) and Axelrod (1997).

Cuba and Nicaragua, these U.S. political actors worked clandestinely with a number of anti-Aristide civilian operatives within Haiti, while at the same time professing to support the embryonic, yet fragile democracy Aristide governed (Bogdanich and Nordberg 2006). But even more importantly, the U.S. political actors aiming to overthrow democracy not only in Haiti, but other countries such as Venezuela, have adapted to the post-Cold War international environment. They have learned how to take advantage of relatively new phenomena such as the rise of NGOs, human rights campaigns, governmental-sponsored “peace” and “democracy” initiatives, and grassroots and civil society movements. This is what I call the “new intervention.” Supporting guerrillas and direct intervention are not always conducive means to intervene in Latin American affairs. However, adapting to the new international environment, interventionists in Washington have gravitated towards NGOs and civil society movements, utilizing them physically and linguistically through “democratic” discourse, to destabilize Latin American governments. Therefore, we can not merely think of intervention in old terms, such as the invasion of the Dominican Republic (1965). We have to study the new profound levels of interventionism, most of which is not amenable to quantitative or positivist research.

U.S. actors are not the only players who have learned how to be adaptive. Current center-left leaders throughout Latin America have also learned from past errors and grown more adaptive to their domestic and international environments. The current leftist movements are significantly different from those in the past. The “socialism” being espoused today by figures such as Presidents Rafael Correa and Hugo Chavez of Ecuador and Venezuela, respectively, is far different from the communism of Cuba or even the socialism of Sandinista (1979-1990) Nicaragua. Most importantly, leaders have

completely jettisoned the egalitarian concept against growing wealthy. In countries such as Venezuela, bankers and other capitalists have done rather well economically (Roberts 2013). Leaders have learned from the lack of support and flight of both capital and skilled workers extreme socialist policies can cause. In fact, center-left socialist leaders have done their utmost to not only attract foreign investment, but diversify their sources. For example, Bolivian President and socialist Evo Morales bypassed the conventional U.S. and European investment to attract South Korean capital to develop the country's vast lithium reserves (Ripley and Roe 2013).

In addition to stressing the importance of adaptability, CT does not privilege one methodology over another. This is important because I not only draw upon a wide range of methodologies, but I also employ interpretive methods, a mode of inquiry that scholars have often marginalized in political science (see Schwartz-Shea and Yanow 2002). However, because CT challenges a one-size-fits-all approach to research, it allows researchers to explore subjects with a multi-methods and interdisciplinary approach, borrowing from the humanities as well as economics and the hard sciences.<sup>39</sup>

“Consequently, complexity demands a broad and open-minded approach to epistemological positions and methodological strategies,” observes Robert Geyer (2003), “without universalizing particular positions or strategies” (16). Tezcan (2006) reinforces this position: “CT is, as known, an interdisciplinary research paradigm” (9). This democratic tendency is instrumental for challenging methodological limitations and exploring innovative approaches for understanding how public goods and bads are created.

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<sup>39</sup> Researching on complexity theory, this has been my interpretation. Others may be inclined to disagree.



Finally, challenging the notion of linear and orderly progression is valuable on a number of levels. First, CT allows researchers to understand and highlight the problems associated with operationalizing historically contingent and subjective variables such as public goods and terrorism and running them in linear regression models. Although I detail more below, it is important to note that not all variables are subject to simple orderly linear paradigms. A public good in one particular time may not be considered a public good in another. Second, there is no taken-for-given presupposition that research will inherently give way to human progress, development, and natural order. This is important for studying areas such as economic development. CT allows researchers to question the notion of progress and accept it for what it is: a slow, uncertain, and evolutionary process (Rihani 2003).

### **Grounded theory and an inductive approach**

In addition to highlighting the complex nature of this research, the inductive approach is important to note. A deductive research aims to test and confirm or disconfirm a particular established theory. Despite drawing upon the theory of hegemonic stability theory, this project has, to an extent, developed inductively. Since I had no theory to explain my initial research questions when the explanatory power of HST collapsed under the weight of analysis, I aimed to explore a wide range of information. This meant drawing upon primary sources, secondary sources, in-depth interviews, statistical datasets, and personal experience living among the people of Latin America for nearly eight years of my life.

As a result, this dissertation is based upon what has become known as grounded theory methodology (GTM). Popularized by Barney Glaser and Anselm Strauss with their

1967 book *The Discovery of Grounded Theory*, GTM aims to systematically study economic or social phenomena with the objective of creating theoretical insight. GT, it is worth stressing, is not descriptive. The approach is procedurally rigorous and endeavors to comparatively analyzing observations, systematically code for important information, identify specific cause-and-effect patterns, and create useful theory to help explain and possibly predict the phenomenon under study.<sup>40</sup>

Grounded theory methodology informs this research in the following ways. First, since this dissertation does not aim to necessarily “test” a theory, I needed to find under what conditions the United States could play a positive role and if these conditions rarely occurred, under what conditions could Latin American nations bypass the United States and address their own issues regarding economic development and conflict resolution. This meant approaching these questions inductively. Furthermore, thinking comparatively through in-depth comparative case studies, I found that certain variables affected the patterns and caused variance in U.S. foreign policy approaches. Finally, after systematically coding and discovering these patterns, I was able to develop theoretical insight which is both academically significant and policy relevant.

### **Quantitative Section**

I now aim to explain the specific methods upon which this research relies. To begin with, studying U.S.-Latin American relations, one basic question emerges: To what extent has the United States been historically involved in Latin American affairs in the first place? Scholars and activists from both Latin and North America have historically

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<sup>40</sup> There is a wide range of literature to understand not only ground theory methodology, but the rich debate within the movement. See Straus and Corbin (1990) and Glaser (1990) for more information.

observed U.S. interventionism in Latin American affairs.<sup>41</sup> The true extent of interventionism, however, is difficult to know. This research cannot merely rest on the assumption that U.S. simply always intervenes, regardless of how prevalent and commonplace it has become. As a result, I address this question by measuring U.S. intervention in Latin American conflict with a quantitative research design. Since this part of my research only aims to measure U.S. presence, linear regression remains the most suitable technique.

*Subjects:* The specific subjects on which I rely are my own personal modifications of the Correlates of War Project (COW) and UCDP-Prio Armed Conflict Datasets. Readjustments of established datasets have, with justification, become accepted in the political science community (Thies 2005). Drawing upon the datasets, I have coded for two dichotomous qualitative variables—U.S. intervention and non-intervention—in 123 Latin American conflicts. Additionally, I code for two independent variables: Presidential party (republican and democrat) and geographical location (Mexico, Central America/Caribbean, and South America). The goal is to measure the influence these variables exercise over the dependent variable, U.S. intervention.

Conflict is strictly defined as an inter-state or insurgent-driven dispute that results in at least one death. A protest, however, would not be considered. U.S. intervention, defined by U.S. physical presence in support for at least one side of the conflict, includes both instances in which the United States enters a conflict that has already begun, as in the case of Mexico's early battles with France, and the United States initiates the conflict, as in the invasion of the Dominican Republic in 1965. Since the objective is to only

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<sup>41</sup> The literature on this is too dense to cite here. However, see Booth, Wade, Walker (1996) and Longley (2009).

measure the U.S. intervention, however, I see no reason at this point to differentiate between the different types of intervention mentioned above, which would require in-depth research and coding adjustments that time constraints do not allow. However, further research is necessary to explore the above-mentioned differentiation.<sup>42</sup>

Readjusting the coding and measuring variables, it is important to note, is not an easy task. I draw upon primary and secondary literature in Spanish as well as English, along with personal interviews, to adjust the datasets for U.S. intervention. The readjustment, however, is clearly not the final say. This research project welcomes criticisms to improve the never-ending coding process. The readjustments, nonetheless, were necessary. U.S. datasets remain reluctant to honestly code for U.S. intervention, particularly in conflicts that may link U.S. policy to unjust human rights abuses or even support for terrorist activities.<sup>43</sup> For example, the COW dataset codes the Nicaraguan 1980s war as an intrastate conflict. However, archival documents, secondary literature, the International Court of Justice case *Nicaragua v. the United States* (1984), and memoirs from Nicaraguans on both sides of the war clearly show that United States played an integral role.

Furthermore, many datasets rely on such specific and parochial definitions that fail to capture the scope of intervention. Pickering and Kisangani (2007), building on the definition of intervention originally advanced by Pearson and Baumann (1993), code military intervention as “regular troops or forces (airborne, seaborne, shelling, etc) of one country inside another” (2). This definition, however, fails to capture the depth and scope of U.S. intervention such as the use of CIA operatives and the training of irregular

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<sup>42</sup> For future research, I plan to code these differently to see if there are any significant differences.

<sup>43</sup> I discuss this problem with U.S. research in depth in the chapter on interpretive methods.

soldiers in and out of U.S. soil. Additionally, relying on this database would convey the false impression that the United States did not intervene in a large quantity of conflicts in which it actually did. Therefore, readjustments were necessary for this research.

*Procedures:* The first objective of the quantitative methods is to correlate U.S. intervention with Latin American conflict. To test the probability of U.S. intervention in Latin American conflict, I rely specifically on logistic regression. The second is to measure the significance of the three independent variables (party, geographical location, and time) on U.S. intervention. To measure the significance, I rely on linear regression methods, including the ordinary least squares (OLS) estimation.

*Contribution:* This study is contributive because I add a pivotal dimension to the conflict data: U.S. intervention. Although COW and UCDP-Prio Armed Conflict are established datasets, they fail to include significant information for Latin American scholars. Paul Hensel, researcher and data collector for Issues Correlates of War (ICOW), and John Tures (2000) observe that COW misses pivotal data such as U.S. intervention in the 1885 and 1906 Central American conflicts. This part of my research aims to not only measure U.S. intervention, but also begin a trend to recognize and code for U.S. involvement in Latin America, something scholars outside Latin American studies have failed to do.

### **Qualitative Methods**

Mainstream qualitative methods allow an in-depth analysis into the emergent properties and complex interaction in not only foreign policy decision making, but also the effects these decisions have on Latin American countries. The methods upon which I draw are associated with a number of mainstream qualitative research scholars

(Goldstone 1991, 2006; Gerring 2004; George and Bennett 2005). First, I rely on John Gerring's definition of a case study. According to Gerring (2004), a case study is defined as the following: "[A]n in depth study of a single unit (a relatively bounded phenomenon) where the scholars aim is to elucidate features of a larger class of similar phenomena" (341). A "bounded phenomenon" involves any specifically-defined spatial entity such as a war, revolution, or crisis, as with Graham Allison's (1969, 1971) seminal study of the Cuban Missile Crisis. Gerring (2004) continues to differentiate the case study method from the way in which researchers analyze the cases themselves. The case study method is not ethnography or process tracing, which are "subtypes" of cases, but the way we define and analyze the case (Gerring 2004, 342). This differentiation is crucial because the case study method, therefore, can employ a number of different vehicles for analysis (e.g. process tracing, ethnography, archival research, interpretive methods) depending on the researcher's needs, goals and questions.

For the purpose here, I draw upon case studies, but analyze them differently. The specific methods I use to conduct a case study approach are the following: comparative historical analysis (CHA), process tracing and congruent testing, multi-national archival and secondary research, ethnography, and finally interpretive methods. First, CHA is different from an in-depth historical text or world history such as *From Colony to Super Power* (2008), George C. Herring's tome on U.S. foreign policy. Instead, CHA relies on a small-N case-based research method in order to explain variation in historical events (Goldstone 1991). By drawing upon a number of selected cases, my research goal is to explain the conditions under which the United States can provide public regional goods. Therefore, this part of the dissertation is to address the why-question. The why question

is based more on positivist methods because it aims to discover, confirm, or falsify causal inference. The case method, at least applied here, does not endeavor to advance universal laws or ahistorical explanations, but trends and patterns that are possibly generalizable to other cases. “The essence of a comparative case study is to identify patterns rather than just a single-case phenomena,” Bruce W. Jentleson (2000) points out, “[t]he uniqueness of every case is to be respected, but the emphasis is on developing more general conceptual formulations, middle-range theories, and policy lessons” (15).

The two methodological vehicles I use to trace out certain patterns of causations are process tracing and congruence testing. Process tracing involves in-depth historical research that leads to tracing out complex causal processes and linking these causes with specific historical outcomes. Process tracing also aims to demonstrate that human behavior, under certain conditions, is at times consistent and predictable, not always a mere random event (Goldstone 1991). Congruence testing involves identifying congruent patterns among the cases. Theda Skocpol (1979), for example, found congruent patterns between the revolutions in China, Russia, and even “liberal” France, demonstrating that these cases, which appeared quite historically different, had congruent patterns of causality (Goldstone 2003). Together, congruence testing and process tracing allow the researcher to gain insight into her subject under study. George and Bennett (2005) point out that the goal of the congruence method is to identify the variance in the independent variables and, thus, dependent variable in a set of cases. Therefore, the researcher does not need to rely on a great amount of historical data. Process tracing, however, does require a great deal of historical information and assists in the in-depth exploration, testing, and deciding if causal explanations are spurious or valid.

Moreover, I rely on what I call “multinational archival and secondary research.” The point is to differentiate my research from those scholars who rely primarily on U.S. centric and English-based sources. A multi-national approach is crucial because this research requires theoretical scholarly literature, secondary sources that provide the relevant historical background information, and primary sources of information that include official governmental documents, public speeches, personal interviews, court decisions, and international agreements and treaties. I utilize this approach not only for the mainstream qualitative part of the research, but for the quantitative, critical, and policy recommendation chapters as well.

Relying on primary and secondary sources from Latin America, opposed to only those from the United States, has certain methodological advantages. First, albeit US sources are integral, they have their own biases. Archival and secondary sources from Central and Latin America offer a counter balance to the official US agenda. One example is El Salvador’s interpretation of the Bryan-Chamorro Treaty (1914), which differs significantly from that of the United States. The treaty allowed U.S. military bases in Nicaragua’s part of the Gulf of Fonseca, a move El Salvador perceived as a national threat. Second, the archival research gives the Central and Latin Americans agency. Ignoring the pivotal role of Latin American policy makers or simply blaming the United States for Latin American problems would fail to offer a comprehensive understanding of the subjects. Third, a multi-national approach is instrumental for controlling for confirmation bias. Scholars have noted that social science qualitative research often falls in the trap of selecting historical secondary information that confirms the particular theory of the researcher (Lustick 1996).



Most importantly, relying on both Latin American and U.S. primary and secondary sources allows this research to capture marginalized information, history, and voices that U.S. academic scholarship has overlooked and ignored. The U.S. academic literature on Latin America, especially in the field of political science, to which I belong, is often inattentive to the contribution Latin Americans have made for peace and prosperity. In fact, most of the academic literature either harbors a negative essentialization of Latin America or overlooks Latin America's accomplishments all together. As I demonstrate in the case of the Central American Court of Justice, however, the judicial work of this little-known supra-national institution is quite impressive, with the ability to advance our understanding of the development of international institutions, laws, and cooperation.<sup>44</sup> Therefore, my methodology takes a necessary multinational approach to capture Latin American regional successes in conflict resolution, economic development, and political negotiations.

Ethnography is prevalent throughout this dissertation as well. Ethnography, however, is not an easy method to operationalize. For the research presented here, I rely on the conceptual definition advanced by Edward Schatz (2009). According to these researchers, although ethnographic scholarship is currently fraught with rich and necessary internal debate, there are two principal characteristics associated with ethnography. The first is participant observation. This specific type of observatory research depends on the researcher's immersion in the environment under study and allows her or him to generate and gather contextual knowledge. For example, scholars are often interested in institutional and incentive structures. Instead of researching under

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<sup>44</sup> Common international relations text books such as *Introduction to International Relations: Theories and Approaches* by Robert Jackson and George Sorensen completely ignore the CACJ. I have yet to find a text book that acknowledges its existence.

the assumption that all actors operate under the same structures, participant observation can offer insight into the contextually contingent incentive and structural conditions under which people work and live. The second is “sensibility,” a type of an “emotional engagement” that allows the researcher to understand the meaning of people’s political and social reality (Schatz 2009, 6). Ethnography has advanced fruitful research programs by addressing questions and gleaned information that mainstream political science methods are unable to reach. Enrique Desmond Arias (2009) demonstrates the success of ethnographic methods in understanding the link between myth and democracy in Argentina, collecting data on peasant collective action in El Salvador, among many other studies.

Ethnography influences this dissertation in many ways. Most importantly, my experience living, working, researching and teaching in Central America and Mexico has made me sensitive to the following overlooked, yet significant, problems that pervade mainstream news outlets and U.S. political science institutions, particularly at the research 1 level: U.S. centric and English-based biases; unfair knowledge production in North-South relations; the marginalization of voices; the asymmetrical power structure and lack of objectivity involved in academic research; biased and offensive coding for quantitative methods; the de-legitimatization of legitimate movements; the legitimatization of U.S. policy foreign policy; left-wing as well as right-wing ideological imperialism; conflicts of interest in research funding; and the devaluing of alternative modes of inquiry in order to understand Latin American Studies.

Although I develop the particular points in the chapters in which they appear, a clarifying example of one point is warranted. One of particular importance involves the

research of terrorism. Although U.S. academic institutions and publications offer copious information and coding for defining terrorism, U.S. scholars clearly privilege the deaths of allies over non-allies, undermining the scientific objective claims advanced by social science researchers. For example, both U.S. qualitative research and quantitative databases describe and code the Farabundo Martí National Liberation Front (FMLN) guerrilla group in El Salvador as a terrorist organization, but fail to extend the same definition and coding to United States-supported irregular movements the same status as “terrorism.” For example, the Global Terrorism Database (GTD)<sup>45</sup> codes FMLN attacks against the Salvadoran government as “terrorism,” but fails to extend this coding to the private death squads that were often supported by U.S. and Latin American citizens. The personal testimonies I have heard by victims, however, have rendered me more sensitive to the bias in U.S. scholarship. I cannot minimize the importance of ethnography, in this research project.

In addition to mainstream quantitative and qualitative methods, I also employ interpretive methods to analyze my final cases. Although an interpretive approach, as with other methodological traditions, do not form a homogenous body of scholarship, there are a number of salient characteristics that distinguish its approach: 1) Privileging the study of meaning and identity over causal analysis; 2) questioning the objectivity of “normal science”; 3) relying on discourse and textual analysis; 4) exploring the power structures involved in research; 5) addressing the how-question instead of the why-question; and 6) downplaying the role of a universal rational actor and emphasizing the importance of culture, interpretation, historical contingency and subjective practices; 7)

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<sup>45</sup> GTD is a terrorism data-set project housed at the University of Maryland at Baltimore and funded by the Department of Homeland Security. See its website for further detail: <http://www.start.umd.edu/gtd/about/>

analyzing hegemonic power structures and the opportunity of “space” to provide alternative discourse.

Interpretive methods have been marginalized as a mode of inquiry in political science. Schwartz-Shea and Yanow (2002) find that political science methods textbooks privilege mainstream positivist methods, specifically in quantitative form, over interpretive methods, which attracts scant attention. Nonetheless, interpretive methods have offered valuable insight, much of which cannot be attained with mainstream methods, into North-South relations (Said 1978; Spivak 1988; Doty 1996; Persuad 2001; Chowdhry and Nair 2002). Interpretive methods inform this research particularly in chapter 8, but the approach influences the research throughout. Most of the scholarship on regionalism has drawn upon functionalism, neo-functionalism, neo-realism, or economic liberalism.<sup>46</sup> However, as chapter 8 demonstrates, the new rise of Latin American regionalization opens up critical space that allows alternative discourse, discussion and debate that lead to policies the hegemonic power, the United States, would otherwise oppose.

Instead of relying on the conventional IR theoretical approaches, however, this research draws upon critical literature related to spaces. The concept of space offers a different understanding of regional institutions. Most importantly, the creation of space through regional institutions gives way to alternative discussion, discourse, and debate that lead to policy changes in economics and conflict resolution. Space has a long trajectory. Jürgen Habermas considered public space vital for the creation of democracy. For Habermas (1991), the development of public space, or what he would call the “public

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<sup>46</sup> Detailing these theoretical approaches is far beyond the scope of this paper. For an in-depth understanding, see Schulz et al. (2001).

sphere” was instrumental for democracy (54). Within this space, civil society, not just the elite, could participate and influence society. “For Habermas the coffee houses, salons and table society of Europe were examples of inclusive literary public spaces,” Ted Fleming (2008) observes, “because of their equality, critique, problematizing the unquestioned, accessibility and reflexivity” (2). Although space can entail competing powerful political interests, it is also a place in which the voiceless can have a voice. Essentially, public space is an amorphous and often ambiguous place in which all societal members can participate, regardless of their social and economic standing. According to Mustafa Dikec (2005), space “becomes the polemical place where a wrong can be addressed and equality can be demonstrated” (172). The concept of opening space for genuine equality and even justice has led to wide range of research agendas. Ferguson and Turnbull (1999), for instance, demonstrate how public space was instrumental in facilitating debate over U.S. military occupation in Hawai’i. Drawing upon Derrida and the concept of hospitality, Doty (2006) demonstrates how space opens to assist Latin American migrants on the Arizona border. Despite draconian laws against migrant workers and immigrants, there are ambiguous spaces, often overlooked by both scholars and policy makers, which facilitate, Doty (2006) concludes, “practices and experiences” that genuinely lead to humane acts of hospitality along the southwestern borders (55).<sup>47</sup> In the development of regionalization, space allows competing ideas and discourse that the hegemonic power, particularly the United States, would otherwise oppose.

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<sup>47</sup> The literature on Habermas and public space is too extensive and dense to capture here. See Fultner (2011) for more on public space and a review of Habermas’ key ideas.

## **Operationalization of definitions**

This section aims to offer operational definitions of key terms: marginalization; the influence of U.S. economic interests; public goods; and politicization. Although these terms are not easily and readily definable and scholars can contest the definitions offered here, I build upon a wide range of established literature for the operationalization process.

*Marginalization:* Marginalization occurs when the State Department fails to have policy influence in a particular administration. The ability of a particular agency to exert influence over policy depends on the strength it has to defeat other agencies in the inter-bureaucratic governmental infighting. Stuart (2003, 2008) points out that due to the State Department's marginalization since the National Security Act of 1947, foreign policy has relied more on military policy options. As a result, the foreign policy literature that highlights marginalization defines this bureaucratic phenomenon as an agency's decrease in policy influence via other bureaucratic structures. In this dissertation, the State Department and Secretary of State often lose out to other bureaucrats and bureaucracies such as the National Security Advisor and the Central Intelligence Agency (CIA).

*U.S. economic influence:* Every country tries to advance its economic interests. However, the influence here is defined by the parochial interests of a particular sector that engages in lobbying efforts to create or steer policy in a way that privileges these economic interests over peace, stability, and economic progress for regions outside the United States. For example, as Chapter 7 demonstrates, the U.S. government has privileged U.S. financial capital in trade negotiations. The privilege of financial capital

over monetary flexibility and economic progress may serve the short-term interests of financiers, but work to the detriment of developing countries.

*Flexible regionalization:* Flexible regionalization is defined by a regional integration that does not lock member states into monetary unions or the harmonization of trade policies. Flexible regionalization challenges the conventional regionalism that is based on a Newtonian linear concept of development. This type of regionalism follows a series of “steps” that deepens integration through a free-trade area, customs union, a common market, and finally an economic union that, most importantly, entails a monetary union in which all members share a common currency. Politically, member states follow a similar path in which countries harmonize political policies and create supranational political institutions such as a parliament.

Conventional regionalism, however, fails to capture the diversity of needs among its members. Most importantly, any type of shared currency or dollarization would cause members to lose their monetary independence. Essentially, countries would not be able to address their specific needs. For example, one country may need to battle inflation while another may need to risk inflationary policies to spur economic growth. As we currently see with the economic problems in Greece, the country, being in the Euro zone, has forfeited its monetary independence to tackle individual issues. Greece cannot, say, devalue the euro. Countries such as Sweden and Great Britain did not enter the Euro Zone for this reason. The loss of monetary independence was also a key factor in the cause behind Argentina’s economic crisis at the turn of the twenty-first century (Ripley 2010b).

Moreover, trade policies should avoid harmonization since member countries, particularly in Latin American regionalization, have different resources and different objectives. Bolivia, for instance, is interested in developing its lithium reserves. However, the Bolivian government has different developmental policies and different trade objectives, specifically with the particular countries with and from whom Bolivia wants to trade and attract foreign investment (see Ripley and Roe 2011 for an in-depth discussion on Bolivia's development of lithium reserves).

*Public goods:* Public goods are significantly different from general benefits. A benefit can be anything. If an individual donates money to her favorite charity, that is a benefit; but the particular donation is not a public good. A public good is both non-exclusionary and non-rivalrous: consumers cannot be denied access to the good and additional consumption does not reduce consumers' satisfaction with the good, respectively. Another significant characteristic of a public good in international relations is that the provision of goods does not necessarily stem from altruistic intentions. The creation of goods is not costless. States invest vast resources in endeavors such as maintaining a liberal economic order, creating a regional institution, and carrying out diplomatic initiatives. Therefore, countries create public goods when they have a particular interest at stake. In the case of the Central American Court of Justice (1908-1918), for instance, the Washington had a general interest in maintaining stability in the region due to general economic considerations and the proximity to the United States.

Operationalizing public goods for this particular research is, however, a much more difficult task. Although a general definition can be found in the literature review, an operational definition is more difficult due to the fact that public goods are extremely



subjective and historically contingent. Take low inflation, often considered a public good. Albeit low inflation sounds desirable, as a public good, it is actually historically contingent. When Argentina entered the convertibility plan (*La convertibilidad*) in 1991, the economic policy of pegging the Argentine peso to the dollar curbed hyperinflation, creating a public good. However, a trade-off exists between increasing unemployment and underemployment and maintaining the peg and low inflation. As the peg and low inflation gave way to skyrocketing unemployment and underemployment, sustaining low inflation quickly turned into a public bad, causing an economic crisis (see Ripley 2010b). Essentially, a public good today can be a public bad tomorrow. What is more, a public good is subjective. Maintaining an open a liberal capitalist system, as stressed in HST literature, may be a public good for some economic sectors and social groups, but not for others. Indigenous groups in Mexico, for instance, may not be able to compete with highly subsidized U.S. food imports, causing them to use their land, a public bad.

Scholars have tried to operationalize public goods for quantitative research. Bussmann and Oneil (2007) conclude, for instance, that state reliance on an alliance with a hegemonic power does not produce public goods measured by economic growth and a number of other variables. Relying on a time-series analysis, Karen Remmer (1993) also operationalizes economic goods to measure democratic governance in Latina America, including policies related to devaluation and inflation.<sup>48</sup> Although these are valuable studies, measuring goods constantly falls in the trap of losing historical contingency and subjectivity. Devaluation, as with inflation, hinge on the economic context. Brazil,

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<sup>48</sup> Although Remmer (1993) does not use the word “public goods,” there is an inevitable “good” connotation to the variables to measure the success of democratic governance. Remmer (1993) actually measures the time, or postponement, in which politicians chose to devalue, which is “largely negative from the point of view of the voting public” (397). Focusing on public goods as Remmer does is not an option for this paper.

Argentina, and Venezuela have utilized significant devaluations (in Argentina's case the peso lost over half its value) to their benefit (Ripley 2010b). What is more, each country demonstrated that they required different economic policies depending on their particular situation (Ibid). Finally, economic measurements of growth by gross domestic product (GDP) can also be quite cosmetic, not reflecting the scope and depth of economic and social benefits.<sup>49</sup>

Therefore, I measure public goods within historical and environmental contexts. However, there are some salient features that make my research replicable and verifiable. These include the conditions to reduce military conflict between the respective parties and to create economic long-term sustainable growth. A reduction of military conflict involves the cessation of hostilities between the respective parties. Economic growth means setting the conditions for the appropriate combination of economic openness and regulation. Although HST often stresses the need for sustaining a liberal capitalist open system, studies, as well as recent historical experience, suggest that economic openness can create sustainable growth only under certain conditions (Rodrik 1999, 2002, 2007; Ocampo, Kregel, and Griffith-Jones 2007). Ripley (2010a) demonstrated that opening Nicaragua up to private foreign investment in the country's public energy institutions created public bads in the form of blackouts, a lack of rural electrification, and higher rates. Due to the lack of preparatory institutional conditions, openness did not function well. Therefore, although liberal capitalist openness is associated with a public good, it also can produce public bads, creating the need for the researcher to be more sensitive to

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<sup>49</sup> For a study on the problems of associating economic openness with public goods, see Ratt (1992). Ratt's work demonstrates that openness became a principal cause behind the Mexican Revolution (1910-1920).

the particular context. This research aims to measure the hegemon's ability to create these conditions.

*Politicization:* I use politicization in this dissertation to explain what often happens once the State Department loses bureaucratic battles. Instead of maintaining independent, the department becomes co-opted by the interests of others. For politicization, I rely on a diversity of literature in international relations. First, I borrow from the definition advanced by Stearns (1996). Stearns (1996), who writes extensively on U.S. diplomacy, defines politicization as the following: In lieu of collecting information and advancing policy advice not only objectively, but also to fit the specific contextual circumstances, diplomats carry out their duties within the constraints of a particular ideological doctrine. "A doctrine taken literally and applied indiscriminately," Stearns (1996) warns, "produces policies that are too rigid and unrealistic" (48). An example of politicization can be containment. Although containment might have been an appropriate policy for Eastern Europe, it may not have been the optimal policy for Central America. Therefore, politicization dictates that information collected and policy analysis recommended are encouraged to fit a particular parochial view of world events. The literature on intelligence supports this definition. Bar-Joseph and McDermott (2008), tracing the politicization of foreign policy intelligence back to the nominee of William Casey to the head of the CIA in 1981, point out policy analysts refuse to incorporate dissenting information into their frame work of thought and, thus, policy options. Casey, as director of intelligence, even refused to listen to information that contradicted the Reagan Administration's policy in Central America. He did not want any information demonstrating that there was no Soviet involvement in the area (Simon 2009).

Unfortunately, the politicization of foreign policy often has dire consequences for those countries involved. As Steven C. Roach (2006) points out in his study of the International Criminal Court, “[p]oliticization, therefore, can be understood as constituting both a cause and effect of imperialism” (8). The Politicization, as the mini-case study on Haiti demonstrates, produces real and disastrous public bads for the countries involved in U.S. negotiations.<sup>50</sup>

## **Conclusion**

The objective of this chapter was not only to explain my methods, but also justify their use. I rely on a wide-range of methods in order to capture a more complete picture of the relations between the United States and Latin American countries and Latin American countries among themselves. In Chapter 4, quantitative methods are used to measure the extent to which the United States interferes in Latin American conflict. Chapters 5 through 7 rely on mainstream qualitative methods to find the conditions under which the United States can produce public goods and bads. Finally, chapter 8 relies on interpretive methods to identify the conditions under which Latin Americans can bypass the regional hegemony and create their own public goods. Although more research is necessary to explore this complex topic, the methods chosen for this research project provides a solid starting point.

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<sup>50</sup> It is important to note that this dissertation incorporates a number of mini-cases in order to demonstrate the explanatory power of this research approach.

## CHAPTER 4

### U.S. INTERVENTION IN LATIN AMERICA: A QUANTITATIVE ANALYSIS

#### Introduction

This dissertation engages in an analysis of relations between Latin America and the United States. It further analyzes the conditions under which Latin American countries can bypass the United States and address their own economic and strategic concerns. However, to justify and advance this research agenda, there must be an underlying assumption that the United States is heavily involved in Latin American affairs to begin with. Although the policy and academic literature on United States-Latin America relations suggests that U.S. involvement is historically extensive, the degree of this involvement has never been tested. Measuring U.S. involvement in Latin American is a crucial initial step for this dissertation. Albeit there may be cases of interference, these cases may not be indicative of the overall pattern of relations that have taken place, and continue to take place, for the last two hundred years. As a result, a central research question emerges: What is the exact extent of U.S. involvement in Latin American affairs?

This chapter aims to address this question with a quantitative research approach. In order to measure U.S. intervention in Latin American conflict, however, a re-adjustment of established datasets was necessary since no comprehensive dataset existed. Drawing upon personal modifications of the Correlates of War Project (COW) and UCDP-Prio Armed Conflict Datasets,<sup>51</sup> I have coded for dichotomous qualitative variables—U.S. intervention and non-intervention—in 123 Latin American conflicts.

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<sup>51</sup> For data modifications, see page 5. More specifically, I rely upon the COW MID3 Dataset 1816-1992 and UCDP v.4 1946-2008 for this chapter. See Ghosen et al. (2004) and Themnér and Wallensteen (2012), respectively.

Using logistic regression, I aim to measure the following: 1) the probability of the United States to intervene in Latin American conflicts; the level of significance of presidential administrations (i.e. republican and democrat); and the level of significance of geographical location relative to the United States (i.e. Mexico, Central America/the Caribbean, and South America).<sup>52</sup> The objective here is not to decide whether the United States caused conflict, which would be a complex research effort beyond the scope of this dissertation. The objective is to test the common perception, which is ubiquitous throughout Latin American nations, that the United States, particularly under more hawkish republican presidencies, is always inclined to interfere in hemispheric affairs when the least bit of conflict occurs. For this research, my study posits the following hypotheses:

**Hypothesis 1:** There is a significant correlation between Latin American conflict and U.S. intervention.

**Hypothesis 2:** U.S. intervention is more likely under republican presidential administrations than those led by democrats.

**Hypothesis 3:** U.S. intervention is evenly distributed throughout Latin America.

Measuring variables and events is not an easy task. First, conflict is defined as an inter-state or insurgent-driven dispute that results in at least one death. A protest, however, would not be considered. U.S. intervention is defined by U.S. physical presence in support for at least one side of the conflict. U.S. intervention includes both instances in which the United States enters a conflict that has already begun, as in the

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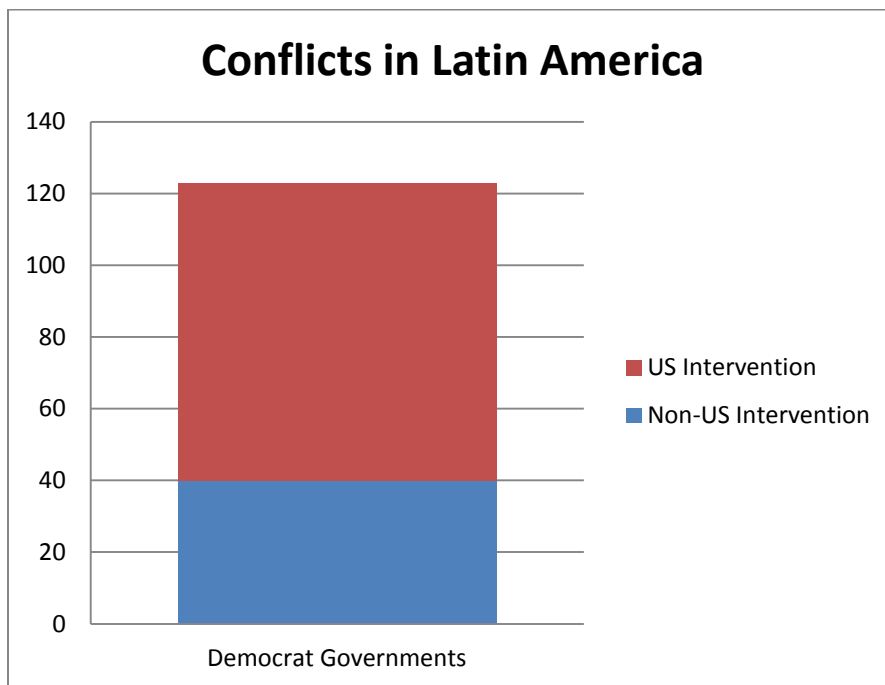
<sup>52</sup> Coding separately for Mexico is justified since it is the only country to border the United States by land. Central America is coded with the Caribbean countries because the five of the six republics have Caribbean coasts. El Salvador is the outlier. However, for future research, I plan to code Central America and the Caribbean separately.

case of Mexico's early battles with France, or initiates the conflict, as in the invasion of the Dominican Republic in 1965.

### Results and Discussion

Coding for U.S. intervention, however, has produced fruitful results. First, the data suggests a significant logistic correlation between Latin American conflict and U.S. intervention: 73 coefficient intercept. Graph 3.1 below shows this relationship. This means that there is a significant probability that if there is conflict in Latin America, the United States will be involved. Although this does not suggest that the United States is the cause of the conflict, such a high level of significance does question the idea that the United States is a regional agent of peace and stability.

Graph 3.1. Conflict in Latin America



In order to explain U.S. intervention, I analyze two influential factors: the presidential party at the moment of the conflict and geographical location relative to its

proximity to the United States. Running logistic regression, I aim to determine if these two independent variables—party and geography—have a significant effect on the dependent variable—U.S. intervention in Latin American conflict. Table 3.1 shows the overall results.

Table 3.1. Measures of probability of U.S. intervention

<i>Probabilities of US Intervention in Latin American conflicts(Logistic Regression)</i>	
Independent variable	Model
Constant	2.1396 ***
	(0.5361)
Party	
Democrat <sup>a</sup>	--
Republican	-0.2169
	(0.4493)
Geography	
Central America & Caribbean <sup>a</sup>	--
Mexico	-0.4729
	(0.9087)
South America	-2.0995***
	(0.5062)
Log-likelihood	-65.84412 (df=4)
AIC	139.69
Cases	123
<sup>a</sup> Reference category	
Standard errors are reported in parentheses.	
. p < .01, * p < .05, ** p < .01, *** p < .001	
<i>Note.</i> Personal data constructed data from COW and UCPD-Prio	

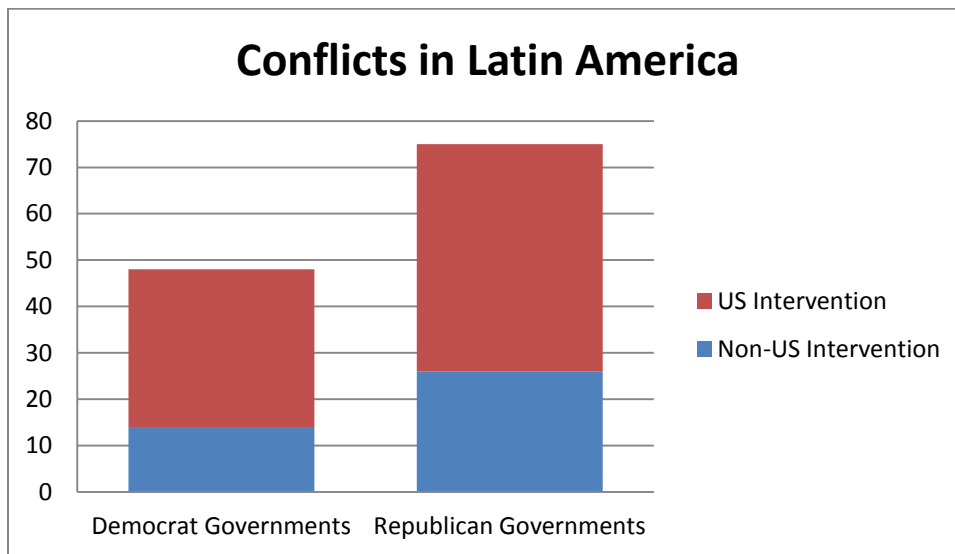
First, presidential party is not significant. This means that democrats are just as likely to be involved in Latin American conflict as their political counterparts, the republicans. Graph 3.2 shows the results for republican and democratic intervention and non-intervention in Latin American conflicts. These results are important because they



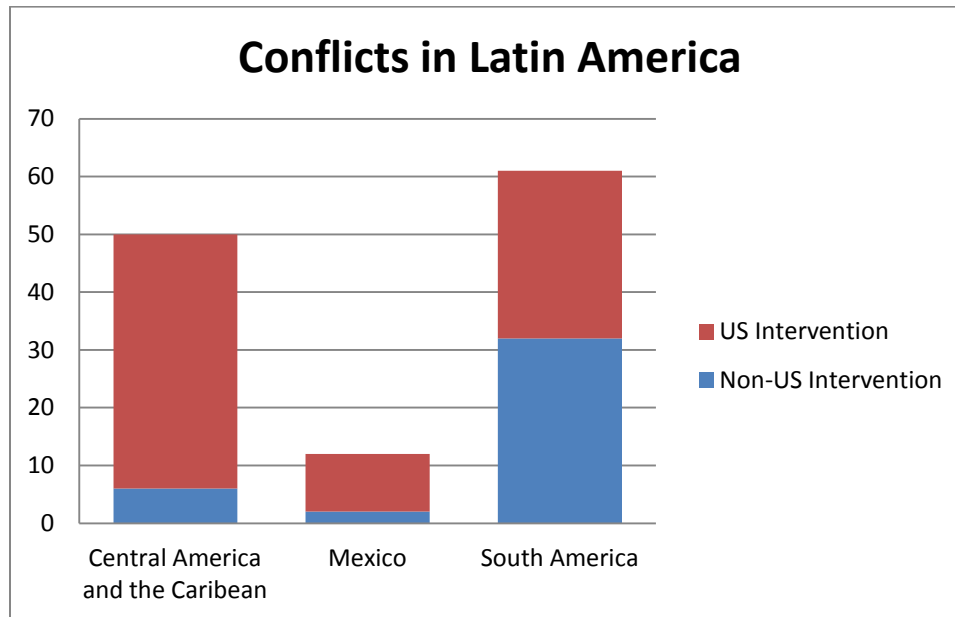
challenge previous research that has found republicans more likely to support intervention in Latin American affairs than democrats.

Finally, geography is significant. Coding for three separate regions—Mexico, Central America/Caribbean, and South America—the results suggest a strong significance level for Mexico and Central America/Caribbean. That is, the United States is more likely to intervene in a conflict in these first two areas than in South America. Graph 3.2 shows the differences between regions. It is also important to note that there is no significant difference between Mexico and Central America/Caribbean. These results are important for several reasons. First, although many scholars have observed that proximity was a variable, it has not been tested quantitatively. Second, Latin American policy makers in regions close to the United States must factor U.S. intervention into their policy analysis.

Graph 3.2. U.S. intervention and non-intervention in Latin America



Graph 3.3. U.S. intervention in Latin America according to region



Additionally, there are only three outliers that fall below studentized residuals  $-2$  of the regression line. These are three Central American conflicts in which the United States did not intervene. Graph 3.4 presents these outliers. Currently, there is no theoretical research explaining these outliers. Future research is necessary. To establish the exact probabilities and quantities of interest of the independent variables, I rely on Zelig package (Imai et al. 2004). In the 95% interval confidence, the U.S. has between 32% and 60%, 44% and 96%, and 74% and 96% probabilities to intervene in South America, Mexico, and Central America/Caribbean, respectively. Figure 3.2 shows the lines of probabilities.

With these results, the following conclusions can be advanced. First, the data suggests the following:

**Hypothesis 1:** There is a significant correlation between Latin American conflict and U.S. intervention (confirmed).

**Hypothesis 2:** U.S. intervention is more likely under republican presidential administrations (rejected).

**Hypothesis 3:** U.S. intervention is more likely in regions closer to the United States (confirmed).<sup>53</sup>

Figure 3.1. Variance in U.S. intervention in Latin America

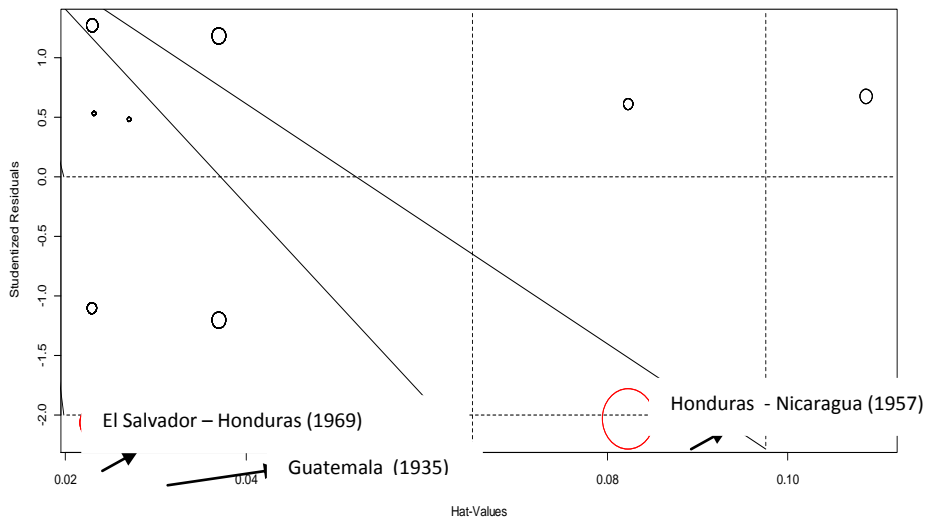
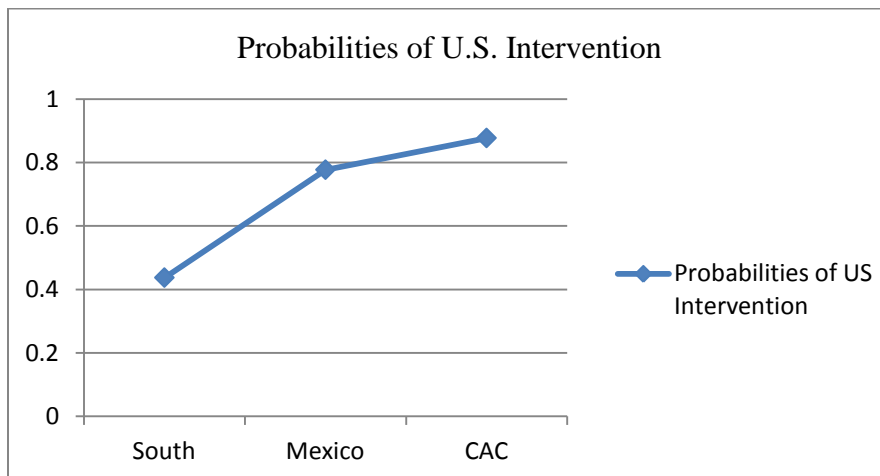


Figure 3.2. Probabilities of U.S. intervention in three areas



<sup>53</sup> See section on Results and Discussions.

More importantly, these results suggest pivotal points for not just this dissertation, but for international relations, Latin American studies, among other academic disciplines. First, studying relations between Latin America and the United States is an important endeavor. What is more, the new dataset and these findings generate ideas for future research. With a significant correlation between Latin American conflict and U.S. intervention, more independent variables need to be explored. For instance, does the amount of a Latin American country's mineral wealth influence the causal relation between U.S. intervention and conflict? What about trade? Are countries more engaged in trade with the United States experience less or more intervention? This paper, therefore, creates endless opportunities for research and a better understanding of U.S.-Latin American relations.

## **Conclusion**

This first chapter aims to quantitatively measure U.S. interference in Latin American conflict since the independent countries gained independence in 1811. The objective here is not to decide whether the United States caused conflict, which would be a complex research effort beyond the scope of this dissertation. The objective is to test the common perception, which is ubiquitous throughout Latin American nations, that the United States, independent from causing conflict or not, is always present when the least bit of conflict occurs. This perception, at least according to the results presented here, is well-founded.

## CHAPTER 5

### PRE-COLD WAR CASE STUDY: THE CENTRAL AMERICAN COURT OF JUSTICE (1907-1918)

#### Introduction

In 1907, the United States and Mexico actively encouraged the creation of an adjudicating international institution to assist the independent Central American republics. Without hesitation, a year later the Central American Court of Justice (CACJ) was constructed in Cartago, Costa Rica. With \$100,000 dollars donated by steel magnate Andrew Carnegie, builders spared no expense to erect a magnificent court building. In fact, when an earthquake wrecked the area of Cartago a year after the Court was established, Carnegie returned to donate a small portion of his fortune to reconstruct the building again, this time in San José, the capital of Costa Rica. The court building, similar to its predecessor, was magnificent. As one observer commented in 1918, the court was a “beautiful building intended for its palace” (*New York Times* 1918).

But the CACJ constituted more than just an impressive piece of architect. With the goal of minimizing violence between the Central American countries, the five republics—El Salvador, Costa Rica, Guatemala, Nicaragua, and Honduras—signed the General Treaty of Peace and Amity and the Supplement Treaty (1907), cementing one of the first steps towards a world in which states relied on an international organization as a tool of diplomacy instead of war. In 1908, *The American Journal of International Law* praised the court’s inauguration: “Thus, for the first time in the world’s history, we see a court sitting in judgment of nations, parties litigant before it” (836).

The CACJ, however, has attracted scant academic attention. In the most prominent books and articles on Latin and Central America, authors, albeit mentioning

the court's rise and demise, refrain from offering an in-depth analysis.<sup>54</sup> The historical articles that have focused on the CACJ after its demise in 1918 have also advanced negative depictions of the court's utility. In 1932, Manley O. Hudson (1932), the prestigious international law professor at Harvard, opined: "the Central American Court of Justice was doomed to failure from the outset" (785).

Pessimism about the court, or even the lack of research on it, has some justification. Historically, the efforts at integration have led to dismal results. The United Provinces of Central America, an 1823 federal republic established by the five present-day countries, completely disintegrated in 1840. The countless attempts that followed to cobble together agreements, initiate conferences, and finally reconstitute ultimately failed. Even the martial effort of pro-unionist Justo Rufino Barrios, the Guatemalan president who actually died for his cause in battle against El Salvador, failed dismally to unite the republics. Why would a supra-national court be more effective than previous efforts? The CACJ, however, was different. Preceding the League of Nations (LON), Wilson's Fourteen Points, and the United Nations (UN), the Court merits a more significant and positive place in academic research. Its creation not only demonstrates the progressive intellection of the signatory members, but also a general concern and belief that international governmental organizations (IGOs) could play a central role in peace and diplomacy. Before the Court shut its door on May 25<sup>th</sup> 1918 and ended its short existence, it was able to successfully adjudicate three major legal disputes, address six individual civil rights cases involving Central American citizens, and commission a number of peace-seeking missions throughout the region. There has been very little

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<sup>54</sup> The literature here is too vast to cite, particularly in fear of leaving any well-known scholar out. However, some of the most prominent works include the following: Salisbury (1989, 17-18); LaFeber (1993, 218-19); Walker (2003, 19, 21); Booth, et al. (2006, 130); and Longley (2009, xvi, 134).

interest, however, into studying and learning from the processes and decisions of the Court.

Although more scholarly research is needed, this article attempts to help fill the gap in the literature. Focusing on the inception of the court in 1907 to its demise in 1918, this study suggests the following: 1) the Court served as a significant yet rocky step towards a more stable region; 2) it provided an important outlet for diplomatic exchanges and grievances; 3) the arguments brought before the Court, as well as the concomitant rulings, had the potential to contribute to the development of regional institutions and international law; and, 4) relying on a multilateral diplomatic approach to solve intractable conflict, the United States can help create regional public goods. I conclude by explaining not only why the Court's continuance was of the utmost importance for Central America, but also that the United States, concentrating on its own parochial short-term economic gains instead of long-term interests, finally failed to provide regional leadership in sustaining the Court.

### **The United States and Central America**

The CACJ cannot, however, be understood on its own. The United States, the hegemonic power in the Americas, played an instrumental role not only in creating the Court, but historically shaping regional politics as well. Although Washington had periodically focused on the region—the United States did recognize the Central American Federation and even entered into a trade treaty with the union in 1825—diplomats often ignored the isthmus until the mid- 1800s (Longley 2009). However, as the United States sought the creation of an isthmus canal, feared European intervention,

and expanded closer to the region through the military conquest, Washington took a more serious and consistent interest in the area.

One of the first prominent diplomats to recognize the importance of the isthmus was John M. Clayton, secretary of state under U.S. President Zachary Taylor (1849-1950).<sup>55</sup> Although Clayton held the position for only a little more than a year due to Taylor's death, foreign infiltration in Central America motivated the secretary of state to engage Great Britain, which had already colonized present-day Belize and the Caribbean Mosquito Coast, strategically important areas of Central America. The Mosquito Coast, located on the Atlantic side of the isthmus, takes up not only the southern coastal part of Honduras but nearly the whole of Nicaragua's outlet to the Atlantic Ocean. Clayton made great efforts to protect the area from further influence. When Great Britain flirted with the idea of creating an isthmus canal, Clayton initiated a treaty with British diplomat Henry Lytton Bulwer. The resultant Clayton-Bulwer Treaty (1850) promoted the initial steps to halt Britain's expansion in both the Atlantic Mosquito Coast and the entire isthmus. The treaty stipulated that neither Washington nor London would "exercise any dominion over Nicaragua, Costa Rica, the Mosquito coast, or any part of Central America."<sup>56</sup>

U.S. diplomats continued to see the strategic importance of Central America. William H. Seward, Secretary of State under Abraham Lincoln and Andrew Johnson (1861-1869), feared regional instability as a way for European powers to interfere in the isthmus. Additionally, he saw a pivotal area for U.S. business interests. After the American Civil War (1861-1865), Seward understood the importance of Central America

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<sup>55</sup> I purposely abstain from discussing the Monroe Doctrine and Manifest Destiny since they have been addressed extensively throughout academic literature. For a recent treatment of both, see Longly 2009.

<sup>56</sup> For a full understanding of the Treaty, see Avalon Project (n.d.a).



as a trade route linking the southern part of the United States with Latin America. The secretary of state lobbied for more engagement in the isthmus, “to protect the interests of commerce” (*New York Times* 1965, 1).<sup>57</sup> In fact, Seward advocated the idea of economic union with Mexico and Central America over fifteen years before Secretary of State James Blaine proposed it in 1881. The more pressing issues of post-Civil War politics, especially Reconstruction, however, took priority over the contentious subject of economic union with Latin American countries. As a result, the idea lost priority in governmental policy circles until Blain resurrected the concept of union and messianically for it when he became secretary of state under President James A. Garfield (1881-1881).

Diplomats were not the only ones to understand the strategic importance of the isthmus. William Walker, a Tennessean filibuster, invaded Central America a number of times as early as the mid 1800s. Cornelius Vanderbilt, looking for a route between the Atlantic and the Pacific Oceans, financed Walker’s expeditions. Walker was so successful that he became president of Nicaragua (1856-1857) until an alliance of Central American forces, coupled with Vanderbilt’s decision to stop monetarily funding the filibuster, pushed him out. The uniting of Central American forces, particularly those from Cost Rica and Nicaragua, demonstrated that the republics could come together for common interests. After being captured by the British and subsequently handed over to the Honduran government, a firing squad killed Walker in 1860 (for more information on William Walker, see Scroogs 1916).

Military strategists further highlighted the regional importance of Central America. The publication of *The Influence of Sea Power Upon History: 1660-1783* by

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<sup>57</sup> For a study on the Confederacy’s interest in Central America, see Schoonover (1991).

Alfred T. Mahan ([1890] 1989) emphasized the imminent need for not only an isthmus canal, but also military bases. Mahan's writings significantly influenced future policy makers such as future Secretary of State James G. Blaine and a young Theodore Roosevelt, whom Mahan befriended at the Naval War College in 1887. Although the two often disagreed on a number of issues such as the size of battleships, Mahan's research shaped the future president's perception on Central America (Seager II and Maguire 1975; Turk 1987). *The Influence of Sea Power*, originally published in 1890, compared the Central American isthmus and Caribbean islanders to the area of the Mediterranean during the rise of the Roman Empire. Essentially, Central America and the Caribbean would be strategically important for military and commercial superiority for Washington as the Mediterranean Sea and its islands were strategically important for Rome. The strategic areas, therefore, had to be controlled by future U.S. administrations in order to dominate the Americas.

Mexico also had its own strategic interests. The Mexican government opposed regional instability and the expansionist policies of pro-Central American union enthusiasts. Mexico feared a tightly-united Central America next door, especially with powerful Guatemalan leaders at its helm. President Justo Rufino Barrios (1873-1885), with whom Mexico continually experienced border conflicts, emerged as one of the most formidable opponents against the Mexican government due to the president's messianic efforts to unite the isthmus. Barrios envisioned himself as the leader, natural "savior" and "protector" of a united Central America, and militantly tried to achieve that goal (*Jeneral* 1878). In fact, the Guatemalan government, in a direct attack on the Mexican government's authority, supported uprisings in indigenous-populated state of Chiapas,

contributing to internal Mexican instability (Mares 2001). In order to curtail Barrios' ambitions and dreams of a united isthmus, Mexican President Porfirio Díaz sent troops to Guatemala and El Salvador to assist anti-Central American unionists (Salisbury 1989). The Mexican government, albeit successful in undermining any pro-unionist tendencies and curtailing the unrest in Chiapas, still failed to achieve regional stability. Therefore, mediation with the United States appeared to be the only viable alternative. Mexico also saw the CACJ as a buffer zone against increasing U.S. expansion. Mexico lost half of its land with the signing of the Treaty of Guadalupe Hidalgo in 1848 in the aftermath of the Mexican-American War (1846-1848).

In addition to the United States and Mexico, Central Americans had self-interest in ending war and creating stability. Central America had become embroiled in intractable conflict since independence in 1821. Although the region gained its independence from Spain with little violence, conflict and war followed the years after independence. Even under the legally-united Federal Republic of Central American (1823-1840), the different regions became embroiled in heated conflict over ideological clashes, regional borders and power struggles. Although the conflicts were quite persistent and bloody, no one ruler or political faction was able to take power and create stability. One of the deadliest and longest conflicts engulfing the isthmus took place in Guatemala in the 1830s. Guatemalan strongmen José Francisco Barrundia, who was supported by liberal political factions, engaged in a power struggle with Rafael Carrera, who was supported in turn by conservatives and indigenous groups. The conflict continued until Barrundia, in a last ditch effort to finally defeat Carrera, invoked the support of Francisco Morazán, the president of the ailing Central American Federation.

In 1938, Morazán, with the assistance of roughly 1,000 troops, rode into Guatemala and squelched the Carrera-led guerilla rebellion (Lynch 1992). Morazán, taking control of the region, however, failed to impose peace and order. He ruled with repression and brutality until Carrera, who also employed “terrorism and a demonstration of savagery,” gained control of Guatemala City; this disorder gave the other republics the opportunity to declare their independence, marking the end of the federation (Ibid 380). After breaking into separate nations, regional conflicts not only persisted, but grew into full-scale wars. A succession of Central American wars in 1863, 1876, 1885, 1906, and 1907 engulfed the region.

### **The Spirit of International Arbitration and Regionalization**

Self-interest, however, was not the only political force to create the CACJ. A certain value for replacing bellicosity with diplomacy, armaments with supra-national organizations, and war with judicial settlement existed. The Pan-American Conference (1889-90), The Hague Conventions (1899), and various South and Central American conferences embodied this spirit of peace. Although these conferences were blemished with obvious self-interest on the part of the different countries involved, participants deeply believed that they could pave a way for peace.

The Pan-American Conference took place in October of 1889 after the persistent urging of Secretary of State James Blaine. Blaine, lobbying the U.S. government for a hemispheric conference since his first stint as Secretary of State under President James A. Garfield (1881), saw the United States as the natural protector of the American hemisphere and his work was a diplomatic effort to undermine European interventionism in the Americas. The United States was “the natural protector of the integrity of the

Central American territory,” he declared right before the Pan-American Conference convened (Lafeber 1993, 33). Although a principal objective of the conference was to ward off European intervention, the convention embodied the idea that peace could be achieved through means other than war and conflict. The Secretary of State’s vision, therefore, included the creation of inter-American institutions, the harmonization of political policies and trade practices, and the general strengthening of the relations between countries throughout the hemisphere. Many Latin Americans also shared Blaine’s vision. Matías Romero, a Mexican diplomat fearful of European intervention, lobbied Washington to intervene when the French attacked Mexico in 1862. Romero argued that the French were in violation of the Monroe Doctrine (Schoonover 1986).

Romero, however, was apprehensive of U.S. power and influence over the conference and region as a whole. He recognized that both countries’ interests were often at odds. Romero (1898), for example, attacked Washington’s efforts to settle the border disputes between Mexico and Guatemala, noting that the attempt was discarded due to being “unfavorable to the rights of Mexico” (627). Nonetheless, as the second vice-president to the Pan-American Conference, Romero saw international institution building, in lieu of war, as a way to reach peaceful coexistence in the hemisphere. He also witnessed Blaine’s flexibility not only to comprise on important conference issues, but allow Latin Americans to advance their own ideas to solve hemispheric problems (Healy 2001). Romero, therefore, participated actively on the Mexican side. He initiated a number of ideas, including a customs union and inter-American commission for trade statistics in order to tighten hemispheric relations (Marichal 2002).

Exactly ten years later, The Hague Convention marked a historic time for international relations. Initiated by Nicholas Czar II, The Hague Conventions entailed a number of meetings and concomitant treaties that would offer, using the Russian Emperor's words, "The maintenance of general peace, and a possible reduction of the excessive armaments which weigh upon all nations" (Avalon Project n.d.b). The different treaties established various principles regarding the "Laws of War," including the peaceful settlement and arbitration for international conflicts, the codification of laws during land wars, and the adaptation of maritime warfare principles.<sup>58</sup>

Critics have leveled credible objections against The Hague Conventions and the first Pan-American Conference. First, critics of the Hague Convention questioned its utility. Few international institutions actually materialized, organizational procedures marginalized smaller states, and there was simply no international executive force to enforce the rules of the established treaties and agreements. "It did not even approve a U.S. proposal for a court of neutral nations to arbitrate disputes," laments prominent diplomatic historian George C Herring (2008), referring to the original convention. As for the Pan-American Conference, many Latin American skeptics perceived it as a vehicle for U.S. imperialism. Prominent Latin Americans such as Cuban nationalist José Martí, who actually participated in the conference, feared U.S. military adventurism into Latin American affairs (see Fernández Retamar 2006).

Furthermore, international institutions have come under attack by many prominent academics. "Realist" international relations scholars have developed a large and influential body of literature that challenges the liberal ideas concerning the utility of

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<sup>58</sup> For a list and in-depth description of all the pertaining treaties, see Peace Conference at The Hague 1899: Correspondence, Instructions, and Reports, 1899, the Avalon Project (n.d.b).

supranational institutions such as the United Nations and League of Nations. Although it is not possible to consider realism as a single-body of thought and space constraints do not allow for an in-depth analysis here, one essential point on which they agree is that the principal problem with the international system is anarchy (for an in-depth study on the variants of realism, see Doyle, 1997, 41-195). Unlike the domestic sphere, which has the policing capabilities to make citizens comply with domestic laws, the international sphere lacks any comparable bodies to control or even monitor the behavior of states. There is simply no governing body or force that can compel states to comply with international treaties, laws, and institutions in the first place. International institutions, therefore, do not have the authority to enforce their own rules. “International politics,” Hans Morgenthau ([1948] 2006), one of the pioneers of classical realism, reminds us, “cannot be reduced to legal rules and institutions” (18).

David R. Mares (2001), drawing upon the realist premise, stresses the increasing reliance on negotiation and conventions, supported by both regional and extra-regional actors, but the paradoxical increase in bloodshed. “Between 1826 and 1889 at least 50 conventions among Latin American states forswore the use of force to resolve disputes,” Mares (2001) laments, “[y]et this was the period of the bloodiest wars” (48).

International relations scholar Robert Keohane offers an even more critical review. Although Keohane believes institutions can be useful in facilitating cooperation among countries (see Keohane 1984 and Keohane and Nye 2011), he finds that Latin America has historically failed at contributing to supra-national institutional building. “Latin American countries are takers, instead of makers, of international policy,” Keohane (2000) claims, “[t]hey have relatively little influence in international institutions” (211).

Although criticisms against The Hague Conventions, Pan-American Conferences, and Latin American institutions in general are legitimate, they suffer from serious weaknesses. First, criticism fails to consider the success of diplomatic efforts and international institutions. These successes often attract little scholarly attention, whereas the failures draw more scrutiny. The League of Nations is a common case. Scholars often cite the League's failure to stop Benito Mussolini's Italy from invading Ethiopia, then known as Abyssinia, in 1935 (For a study on the inability of international institutions to facilitate peace, see Mearsheimer 1994/1995). However, the League's success in not only negotiating conflict between Colombia and Peru (1932-1933), but also taking over Leticia and returning the disputed area to Colombia after the ceasefire negotiations, attracts scant attention. As with the League of Nations, many scholars note the ultimate demise of the CACJ, but neglect its successes and potential importance for international law and institution building.

More importantly, criticism fails to contextualize the internationalist *zeitgeist* surrounding the rise of international institutions during the turn of the twentieth century. Peace organizations and trans-national movements became a ubiquitous presence in the turn of the twentieth century. These movements, united by their unwavering optimistic belief in human nature, progress, and international law, had significant influence over governmental policies. The Quakers, a pacifist protestant group (Members of the Society of Friends) based in United States, were a principal force. They played an integral role in lobbying for peace and diplomacy. "It goes without saying that the Quakers are out in full force," wrote the American Ambassador for the 1899 Hague meeting, "[t]he number of people with plans, schemes, notions, nostrums, whimsies of all sorts, who press upon



us and try to take our time, is enormous” (Best 1999, 623). Such peace movements swept the globe. Austrian activist and novelist Bertha von Suttner played a prominent role, lobbying governments to support the initial Hague Conference and to create the Nobel Peace Prize, which she won in 1905 (Haberman 1972).

The spirit of trans-nationalism and supra-national institutions took hold in Latin America as well. Latin American women, alongside their North American and European counterparts, played a principal role in the formation of pan-American and supra-national conventions.<sup>59</sup> Activists such as the Brazilian scientist Constance Barbosa Rodrigues, a major participant in the Third Latin American Scientific Congress (1905), and Chilean educator Amanda Labarca, the president of Consejo Nacional de Mujeres and an activist in a number of trans-national congresses, helped facilitate the development of inter-American relations (Miller 1991). They believed increased relations could create better cooperation among states.

The Central Americans involved in the creation of the CACJ viewed the Court as a child of the peace movement and an extension of the earlier international conventions. As Manuel Castro Ramírez (1918), a Salvadoran magistrate who spent five years on the Court, observed, “The world was feeling the urgent need to stop the whirlwinds of war that have threatened the foundations of civilization.” In his memoirs, Ramírez (1918) defined the CACJ as a superior expansion of the Hague Conventions, one in which all the Central American republics would rely on to resolve their grievances. Other noted Central American legal scholars such as Alfredo Martínez Moreno (1957) and Luis Pasos Arguello (1986) echoed similar sentiments by connecting the CACJ with the world peace

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<sup>59</sup> It is important to note that the international woman’s movement was not a homogeneous group. In fact, many North American feminists harbored cultural prejudices against Latin American feminists. See Stoner (1991) for more information.

movement. They observed that the zeitgeist of peace and institutionalism injected the region with feelings of optimism towards ending conflict through peaceful means.

Although the exact extent to which the movement affected the region and promoted peace can never be known, it did influence a large number of both private and public citizens. Famed Nicaraguan poet Rubén Darío (1867-1916) was a strong advocate for replacing conflict with international institutions. He traveled and lectured the Americas for the cause of peace. “Señor Darío is now in this country on a lecture-tour,” commented the *New York Times* on one of the poet’s many visits, “in the interests of international peace” (Fay 1942, 642). Other Central Americans such as Honduran diplomat Carlos Gutiérrez Lozano and jurist Mariano Vásquez, who later became an outspoken supporter of the CACJ, published and lectured on the instrumental role of trans-national relations and institutions (see Rosa Bautista 2005). These influential Central American activists lobbied strongly for the creation of inter-American conventions, supra-national institutions and international law in order to modify the bellicose relations between states and create the conditions to advance more pacific coexistence. In fact, Central American governments had already begun to initiate regional institutional building prior to the CACJ. In 1889, the same year as the First Pan-American Conference, the Central American republics came together in San Salvador for the Third Central American Congress. This third effort to hammer out regional peace agreements culminated in the Provisional Union Pact of Central American States. With twenty seven written articles, the Union’s goal was to create the National Executive and other adjudicating bodies to curb the escalating conflicts between the republics (Dieta Centro-Americana 1889). Although these initiatives failed to reconstitute the union, the

Central Americans' consistent labors to create and sustain supra-national bodies not only reflect a belief in pacifism through international institutions, but also helped set the path towards the creation of the CACJ.

In addition to dismissing the international *zeitgeist* of peace, criticism fails to explain how Latin American countries were able to take advantage of internationalism to defend their sovereignty and independence against the growing power of the United States. Initially, the young, newly independent Latin American nations looked towards the United States for protection against not only foreign powers, but also themselves. As early as 1822, El Salvador, in fear of Mexican expansion after the coronation of Emperor Agustín Iturbide, requested U.S. annexation (Bancroft 1887). Nicaragua also looked towards the United States for help balancing not only Mexico, but also the encroaching power of Great Britain, which robbed Nicaragua of the Mosquito Coast, Nicaragua's outlet to the Atlantic Ocean (Zamora 1995). Nicaragua requested US aid and intervention to curb Great Britain's penetration into the country. Latin Americans, however, grew increasingly more apprehensive and skeptical of their northern neighbor's intentions and expansionism.

During the time of the first Pan-American Conference, there were a number of conventions that reflected this apprehension. These initiatives aimed to control U.S. influence. El Congreso Jurídico Sudamericano (1889), held exclusively between South American states in Montevideo, had the principal objective of creating not only inter-state bodies to facilitate the development of inter-American laws and stability, but also international investment regulation restricting Washington from interfering into their domestic politics. Carlos Calvo, an Argentine diplomat who wrote *El derecho*

*internacional teórico y práctico* in 1868, played a significant part in this Latin American internationalism. A number of South American countries wrote his “Calvo Doctrine,” a doctrine of non-intervention, into their national constitutions to limit U.S. interventionism (see Calvo 1868). In fact, the documentation of the inter-American conferences also emphasized the growth of U.S. militarism (Ramírez 1871). The United States, once viewed as a potential protector, progressively became perceived as the principle threat.<sup>60</sup>

Central America was not different from its South American neighbors. The republics also tried to use regional agreements and conventions to resolve disputes, specifically without U.S. intervention. The Matus-Pacheco Convention (1896), named after the Nicaraguan and Costa Rican representatives Manuel Coronel Matus and Leónidas Pacheco respectively, succeeded in defining the gelatinous borders between Nicaragua and Costa Rica.<sup>61</sup> With the 1823 Costa Rican annexation of Guanacaste and Nicoya, two tracks of land that had previously been parts of Nicaraguan territory, border disputes erupted (see Bolívar Juárez 2011). Initiated and mediated by El Salvador, the Convention finally succeeded in defining the contentious borders. This convention was instrumental for Central American conflict resolution because it compensated for the failure of a previous attempts initiated by foreign powers. The United States and Great Britain had previously initiated the Webster-Campton Convention (1892) to address these issues. However, the convention was tainted by obvious US and British interests, particularly canal building and British interests in Nicaragua’s Pacific coast. Nicaragua ultimately rejected the convention for these reasons.

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<sup>60</sup> One can see parallels between the regional initiatives noted above and today’s current initiatives with UNASUR, ALBA, and CELAC.

<sup>61</sup> This initiative built upon the 1858 Cañas-Jerez Treaty, which earned the *Cleveland Award*. This treaty is explored more thoroughly later in the paper

Central American governments continued to initiate local agreements to resolve their own conflicts. Nicaraguan liberal dictator José Santos Zelaya (1893-1909) sought a number of regional agreements to strengthen Central American union and fend off expanding U.S. intervention. Building upon the tenuous Central American solidarity that persisted despite years of internecine conflicts, Zelaya was even able to establish, at least on paper, the Central American Tribunal through a series of conferences that took place in the Nicaraguan port of Corinto in 1902. Although the Corinto treaties failed to establish anything concrete, it did show that the republics still had not only a strong sense of Central American identity, but also a desire to create some type of regional integration in order to settle their own disputes. This desire, along with the mediation of Mexico and the United States, culminated in the creation of CACJ.

### **The Court Begins**

In a telegram dated May 7, 1907, Secretary of State Elihu Root extolled the creation of the Central American Court of Justice. “[T]he United States will be represented on this important and auspicious occasion,” he wrote to Louis Anderson, Costa Rica’s Minister for Foreign Affairs, referring to the Court’s inauguration, “which marks so great a step toward permanent peace, progress, and prosperity” (U.S. Department of State 1908). The Central American signatory republics expressed their praise as well by promptly sending congratulatory and appreciative telegrams to Secretary of State Root, President Theodore Roosevelt, and the President of Mexico. “The names of Roosevelt and [Porfirio] Diaz will always be remembered,” the Foreign Affairs Minister for Cost Rica, Don Luis Andersen, said addressing the Washington

Conference, “with gratitude by the humble citizens of those countries” (Scott 1908, 121-143).

Although Root’s diplomatic adulation may appear unrealistically optimistic, the creation of the CACJ gave the participatory nations something to cheer about. Only a year earlier, the republics were embroiled in the Second (1906) and the Third (1907) Central American Wars.<sup>62</sup> Although the Central American conflicts had a number of causes such as disputes over borders and unionism, the last two wars were essentially regional power struggles between Zelaya and Cabrera. Since Nicaragua and Guatemala do not share borders, the conflicts engulfed El Salvador and Honduras, creating further regional bloodshed. What is more, at the time of the Court’s creation, Honduras had just attacked Nicaragua. In the beginning of 1907, the Honduran military attacked the Nicaraguan border town Los Calpules, killed two Nicaraguan soldiers, and occupied the area for three days until the Nicaraguan army drove them out (Barbosa Miranda 2010).

Taking into account the historical fighting, convening all the republics in Washington for the Central American Peace Conference (1907) was a major accomplishment. The signing of the treaties in Washington (1907) and the physical creation of the Court (1908) were further steps in the direction towards diplomacy and peace. Even Zelaya (1907), a vociferous opponent of U.S. imperialism, lauded the diplomatic efforts of President Roosevelt, Secretary of State Root, and Andrew Carnegie for engaging the region and overseeing the creation of the CACJ. Although Central Americans still remained skeptical of U.S. intentions, Washington’s efforts did elicit some good will from the republics. The United States, due to its productive role in help convening the Central American republics, became the guarantor of the Court.

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<sup>62</sup> The First Central American War took place in 1876.

Unlike other agreements preceding the CACJ, the treaties binding the Central American republics together were more progressive and special for several reasons. First, the CACJ was the first international court of justice to which states would actually suspend their sovereignty and submit all complaints for judicial review. This step is significant because since the Peace of Westphalia (1648), the beginning of the modern state system, countries have jealously guarded their sovereignty and been reluctant to allow an international body to judge their actions. The Permanent Court of Arbitration, which borne out of the 1899 Hague Peace Conference, failed to become a world court or even arbitral supranational body due to the bickering of the member states (Kirgis 1996). The Central American Court, however, achieved the status of being the world's first court. "Inside the international arena there is nothing that resembles this Court," wrote Brazilian internationalist and legal scholar Joaquín Tabuco to the Nicaraguan representative in 1908, "it is not only completely original, but also a type of institution that will endure" (Arguello 1986, 16).

In addition to being the first international court, the unprecedented scope of the Court's jurisdiction represented a strong sense of solidarity between the signatory republics. Not only did the adjudicating body exercise juridical rights over the five signatory republics, but also authority over external conflicts between a Central American country and another country outside the region. Article IV of the CACJ stipulated: "The Court can likewise take cognizance of the international questions which by special agreement any one of the Central American Governments and a foreign Government may have determined to submit" (*American Journal of International Law* 1908a, 232-233). This article is significant because it expanded the extent of the Court's jurisdiction, which

meant any and all conflicts among the republics would be under the CACJ's purview, and recognized the need to modify foreign intervention in the isthmus.

Moreover, individual citizens had the right to submit complaints to the Court. If a Central American citizen believed her or his rights related to those laid out in the treaties were in violation, she or he could turn to the CACJ. "This court shall also take cognizance of the questions which individuals of one Central American country may raise against any of the other contracting governments . . .," Article II concerned Central American citizens, "and provided that the remedies which the laws of the respective country provide against such violation shall have been exhausted or that denial of justice shall have been shown" (Ibid 232-233). The six cases brought to the by individuals did not rule in favor of the individuals. The CACJ stated that Central American citizens needed to exhaust their judicial rights in the local courts before the CACJ could rule in their favor. Nonetheless, the fact that the court mentions "denial of justice" for individuals in an international treaty is extremely progressive. Treaties merely focused more on "high politics"—questions of immediate state security—when countries entered into agreements. The Hague even failed to seriously take up the issue of human rights until the 1980s, almost one hundred years later. Article III of the CACJ, however, continues to support individual rights: "It shall also have jurisdiction over cases arising between any of the contracting governments and individuals, when by common accord they are submitted to it" (Ibid 232-233).

Finally, the Court, if it had survived, could have been a source of international law. Lacking an international legislative body, international law is principally created by five sources: the customs and practices established by state behavior; international



treaties and conventions; principles of international law generally recognized by nation-states; international judicial rulings; and, for additional support, the teaching and publications of judicial scholars. The Central American republics created the CACJ to solve specific regional issues and establish acceptable norms of behavior. In fact, the Central American magistrates had the autonomy to develop the articles and laws with little interference from Mexico and the United States. Many of the issues addressed, however, were common among states far beyond not only the Central American region, but also the limited time-frame in which the Court operated. These problems included respecting established borders, the principal of non-intervention, treaty engagement, and the security dilemma.<sup>63</sup> Therefore, the Court's decisions and Central American republics' behavior had the potential to shape international law and set precedents for future cases and practices.

### **The First Case and the Court's Accomplishment**

The first case brought to the CACJ entailed a reoccurring problem among not only the Central American republics, but states in general: the interference of one state into the domestic politics of another. Less than two months after the Court officially opened on May 25<sup>th</sup>, 1908, Honduran President Miguel R. Dávila accused the governments of Guatemala and El Salvador of intervening in its domestic affairs. The government complained first that El Salvador had given disposed Honduran president General Manuel Bonillo (1903-1907) exile and had been training both Salvadoran and Honduran guerillas to help him invade the country. Honduras specifically cited Salvadoran General Fernando Figueroa and Honduran General Pedro Romero of not only

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<sup>63</sup> The security dilemma emerges when one states attempts to increase its own security, but, in turn, threatens the security of another.

training the forces alongside the border with El Salvador, but also invading Honduran territory in Choluteca. The government continued to accuse Guatemala of also training exiled Honduran forces on its territory in Santa Barbara to assist the invaders from El Salvador (Carranza Ernesto 1908). The overall motive behind the defendants' behavior, Honduras noted, was their enmity for the new Honduran government. Based on the case submitted to the CACJ on the part of Honduras, both El Salvador and Guatemala viewed President Dávila as too friendly towards Nicaragua, their enemy at the time. The goal then was to overthrow the Honduran government in order to install Bonillo. As a result of this clandestine activity, Honduras rested its case on the idea that the republics' actions were not consistent with the articles of the CACJ conventions, which stipulated non-intervention and neutrality.

Nicaragua sided with Honduras in the diplomatic debate. Having strong relations with the Honduran government at the time, Nicaragua was fearful of the interventionist behavior of Guatemala and El Salvador. Two months after Honduras, the Nicaraguan government submitted a similar complaint. Drawing upon the same argument of Honduras, Nicaragua advanced its own evidence demonstrating that both El Salvador and Guatemala were in clear violation of the conventions for harboring exiles. Nicaragua specifically cited the presence of General Bonillo and Honduran revolutionary Augusto C. Coello in El Salvador where they were gathering force with the intent to overthrow the Honduran government (Madriz 1908). Nicaragua concluded that both El Salvador and Guatemala must cease their support for illegal revolutionary activities.

El Salvador and Guatemala, however, denied the accusations. Both countries, first, simply noted that there was a clear lack of evidence in the Honduran

government's official complaint. "Never has my Government known such intentions," the Guatemala government stated over the accusations (*Defensa* 1908, 30). Guatemala further argued that the Court lacked the jurisdiction to review the case, noting that Guatemala's behavior within its own territory was a matter of state sovereignty (*Ibid*). The Court did not have the right, therefore, to regulate the country's domestic policies. The government concluded its defense by averring that it simply did not have enough Honduran exiles to invade the country in the first place. "The Hondurean exiles living in this Republic are very few," the Guatemalan diplomatic cable read, "and they live, not under the protection of the Government, but on their own resources or personal work" (*Ibid*, 35). El Salvador echoed the same argument. The government refused to recognize that it was assisting Honduran and Salvadoran rebels. In fact, the Salvadoran government pointed out, if it had wanted to invade Honduras and overthrow Bonillo, it could have done it already and succeeded. On the contrary, El Salvador concluded, it was firmly keeping the faith of neutrality (*Demanda* 1908).

The Court's initial complaint was a crucial test. Geographically strategic, Honduras had been the only Central American country sharing land borders with the other warring republics. Guatemala and Nicaragua historically meddled in the country's affairs in order to impose a government sympathetic to their side of the conflict. In fact, Article III of the Convention recognized that, due to the country's strategic geographical position, Honduras had experienced the most conflict. This issue was at the very essence of the first case. After General Manuel Bonilla had lost power in Honduras in 1907, both El Salvador and Guatemala perceived a threat in the new government, one of which they connected to the interests of Nicaragua in the regional power struggle (*Ibid*). War, as in

the previous decades, appeared inevitable. Could the Court create conditions for peaceful settlement?

The CACJ proved competent to settle this sensitive dispute between the three republics. First, the CACJ provided official diplomatic channels through which each state could advance arguments and an official inter-state body that would collect, organize, and review them. In fact, the first case's primary documents show that the Court had facilitated the communication between the countries involved. There were hundreds of telegrams between the republics trying to settle the dispute (see *Honduras v. Salvador and Guatemala* 1908). Prior to the Court, the region lacked diplomatic channels to review complaints. The republics relied only on intermittent conferences sponsored by the United States, Mexico, or each other. The CACJ, however, promoted the communication and diplomatic negotiations that allowed for the mediation of the conflict. Although the Court observed that Honduras did not advance substantial evidence, the CACJ judges conceded that the defendants had to alter their behavior towards Honduras.

Many scholars, however, have underestimated The Court's role. Thomas L. Karnes (1976), one of the last U.S. scholars to discuss the Court, wrote, "[The Court] ruled that El Salvador and Guatemala were not responsible for aiding Honduran revolutionaries; governments could not be held liable for acts of faction" (195). Albeit Karnes (1976) recognized that the Court, "acted promptly and decisively," he notes that the Court was essentially a failure (195). His depiction of events, however, not only fails to take into account the mandate the Court leveled against El Salvador and Guatemala, but also their positive response to ameliorate the crisis. The Court ordered following: 1)

To halt any interference in the internal affairs of Honduras; 2) disarm any revolutionaries aiming to enter Honduran territory with the intent to destabilize the government; 3) prevent any preparation of movements within their territories that intend to destabilize Honduras; 4) discharge any service officers that are Central American emigrants and maintain vigilance over them; 5) and decrease their number of armed forces, especially those aligned at the frontier with Honduras; 6) remain neutral, as required in Article II of the Washington Convention (*American Journal of International Law* 1908b, 840).

The initial case proved to be a success. First, it assisted in averting war. Previously, war immediately engulfed Central America when power struggles emerged. El Salvador and Guatemala, however, changed their behavior toward Honduras. Both reluctantly agreed to withdraw troops from the border and not contact Honduran exiles, conforming to the demands outlined above (*Defensa* 1908). The revolutionary movements in Honduras subsided. President Dávila weathered the revolutionary storm. Second, the case gave Central America, the Court, and the idea of internationalism a moment of credibility. Media outlets and scholars following the Court's first case lauded its ability to act and mediate conflict (See, for example, *New York Times* 1918).

Moreover, the case suggests that supra-national institutions, under certain conditions, can modify state behavior. Contra realism, increasing diplomatic channels, communication, and international regimes can reduce tension and possibly war. The first case, therefore, gives credibility to institutional liberal scholars. As with realism, institutional liberalism is not a homogeneous group.<sup>64</sup> However, the theory's importance here lies in its emphasis on international institutions and regimes. Liberal scholars

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<sup>64</sup> The research on international liberalism is quite vast. See Doyle (1997, pp. 205-301), for an in-depth analysis.

observe that albeit there is an absence of international authority, institutions can nonetheless promote cooperation through the process of integration in supra-national bodies such as the European Union (EU) and the North Atlantic Treaty Organization (NATO). Although the CACJ had never been close to the depth and scope of the organization and union mentioned above, it did provide an important framework which proved to facilitate regional mediation and the reduction of tension among participants. Central America was on the right path to an ever closer union.

The most important accomplishment of the Court, however, was that it created the conditions under which the Central American republics could negotiate settlements without the interference of foreign powers. Only two years earlier, the Central American republics stepped aboard the *USS Marblehead* to have the United States mediate a conflict (Salisbury 1989). However, the first case was managed completely by the Central Americans themselves. The CACJ, therefore, was a success not only for negotiating peace, but also for keeping Washington out of their affairs.

### **U.S. Intervention: The Bad Neighbor Policy**

Unfortunately, the Court did not control U.S. intervention for long. When Zelaya considered inter-oceanic canal deals with Japan and Germany, President William Howard Taft (1909) became incensed. In fact, the president attacked Zelaya in his first annual message to congress. Washington wanted to be the sole power in the region. In 1909, the Taft Administration supported a group of local conservatives to overthrow Zelaya and sent the marines to protect the rebels. The “Knox note,” named after Secretary of State Philander C. Knox, gave the direct order for Zelaya and his officials to step down (see Knox 1910). Washington did not stop with Nicaragua. In 1911, the United States also

intervened in Honduran politics and removed President Dávila, whom the Court saved just years before, and installed former President Manuel Bonilla.

Washington lost any regional good will it originally earned overseeing the creation of the CACJ. First, several Latin American newspapers negatively covered the story, depicting Zelaya's removal as another "yanqui" intervention (see, for example, *El País* 1909). Furthermore, the Nicaraguan population loathed the government the United States installed. President Taft even had to dispatch 26,000 American troops in 1912 in order to protect President Adolfo Díaz from revolt. When Elliot Northcott, a U.S. minister, toured Nicaragua, the antipathy he felt from the Nicaraguans shocked him: "[T]he natural sentiment of an overwhelming majority of Nicaraguans is antagonistic to the United States" (LaFeber 1993, 219).

Washington initiated a series of meetings with Nicaraguan officials in order to ensure that future governments would not flirt with the idea of constructing inter-oceanic canals. These meetings resulted in the Bryan-Chamorro Treaty. Signed between President Woodrow Wilson's Secretary of State William Jennings Bryan and General Don Emiliano Chamorro on August 5, 1914, the treaty granted the United States the exclusionary rights to construct a canal and the right to build navy bases in the Gulf of Fonseca with a lease of 99 years (*Republic of El Salvador* 1917). The Bryan-Chamorro Treaty became a source of contention for the other republics, as well as Mexico, which perceived the agreement as continued expansionism into the Americas (Serrano 1994). With Mexico unable to advance a formal complaint to the Court, the two principle plaintiffs against the treaty were Cost Rica and El Salvador. They both brought two individual cases to the CACJ. Nicaragua was the sole defendant in both cases.

## **El Salvador vs. Nicaragua**

On August 28<sup>th</sup>, 1916, El Salvador advanced a complaint against Nicaragua before the CACJ. The government's paramount concern focused on the 99 year lease of a U.S. naval base in the Gulf of Fonseca. El Salvador's complaint was twofold. First, allowing the presence of a U.S. naval base constituted an imminent threat to the state of El Salvador. In fact, El Salvador even went so far as to classify the naval base a "menace" (*New York Times* 1917). Second, the Gulf of Fonseca, the water area in which the agreement would establish the base, had co-ownership between the two countries, as well as with Honduras. Therefore, the government of El Salvador argued that, attributable to this co-ownership, Nicaragua had no right to enter into an accord with a third party without its consent (*Republic of El Salvador* 1917).

El Salvador's complaints had intellectual roots, reflecting not only the use of international law at the time, but also the potential to develop future international law. First, El Salvador, through the Chargé d' Affaires Dr. Don Gregorio Martin, built its case from two preceding territorial disputes: the Agadir crisis and the Magdalena Bay case. The former involved the international protests on the part of Great Britain and France when Germany sent a gunboat to the Moroccan coastal port of Agadir in 1911. Since France had violated a previous agreement, the Algeciras Accord, Germany dispatched the *Panther* to the port in order to demonstrate its mettle against the violator. France, however, objected to the foreign naval presence near its shores since it had administrative control over Morocco (Kissinger 1995). To the surprise of Germany, its principle ally Austria, along with Great Britain, took the side of France over the Kaiser. As a result, this case offered El Salvador a precedent concerning the presence of a foreign military at



the country's shores. The latter case entailed the leasing of Mexican coastal lands to U.S. commercial interests. A private U.S. company secured Japan to assist in commercial activities in the area. Although the Japanese government did not sponsor the aid, having Japanese activities so close to the United States provoked an outcry by Washington and the concomitant Lodge Resolution. The United States recognized, "when any harbor or other place in the American continent is so situated that the occupation thereof for naval or military purposes might threaten the communications or the safety of the United States" (*American Journal of International Law* 1912, 938).

El Salvador continued to argue that Nicaragua lacked sufficient clearance in nautical miles. The Salvadoran government demonstrated that the measurements between the Salvadoran and Nicaraguan coasts and islands failed to meet the conditional fixed ten-mile route, the historically recognized length between coastal nations that would allow Nicaragua to claim the Gulf as its own territory. El Salvador utilized the writings of Cornelis Bynkerschoek, a Dutch jurist and international lawyer who helped develop the law of the sea, to show that Nicaragua failed to meet the customary standards established in the practice of state behavior (*Republic of El Salvador* 1917). As a result, Nicaragua was not the legal owner of the bay and did not, thus, exercise the privilege to establish the naval base. El Salvador further argued that the bay was under co-ownership. The government asserted that after independence, the Central American republics formed an internationally recognized union. Therefore, the Gulf of Fonseca constituted a legal "historic bay." This meant that El Salvador, Nicaragua, and Honduras exercised joint sovereignty over the Gulf. El Salvador cited other Historic Bays, such as those of Delaware and Chesapeake (*Ibid*).

Finally, El Salvador pre-empted Nicaragua's most persuasive argument: sovereignty. The Salvadoran officials recognized that Nicaragua would simply fall back on the argument of sovereignty, meaning that having the naval base and U.S. troops, as well as entering the treaty in the first place, remained Nicaragua's natural sovereign right. El Salvador, however, argued the contrary, pointing out that Nicaragua had actually lost its sovereignty. The presence of a foreign military on Central American soil imperiled all republics. "All the lessons the sovereignty of Nicaragua, imposes a sovereign control on this country," El Salvador argued, "therefore, the constitutional order that rests on the principle of absolute independence and on the inalienable integrity of its soil" (*Ministerio de relaciones exteriores* 1916, 9). The overall argument was succinct: the treaty violated the country's rights in the Gulf of Fonseca. "[A] naval station in those waters, by its very nature, necessarily compromises the national security of El Salvador," the government asserted, "and, at the same time, nullifies the rights of co-ownership possessed by El Salvador in the said gulf" (Republic of El Salvador 1917, 18).

Nicaragua, however, countered El Salvador's complaint, pointing out that no threat had emerged with the signing of the treaty. Nicaragua, through its representative Dr. Don Manuel Pasos Arana, cited U.S. foreign policy history towards the region, stating that the United States historically had not threatened the Central American republics in the first place. Nicaragua continued by demanding proof that the United States had inflicted hardships on the Central American people. In fact, the country asserted that U.S. influence had actually benefited the region. "[The United States] has not proven to have been an obstacle to the enjoyment by those Republics of their full national life," the Nicaraguan government wrote in its defense, "there are even cases in

which that influence has been beneficent” (Ibid, 20). As for co-ownership, Nicaragua argued that it was not even co-riparian with El Salvador, but Honduras. Furthermore, the previous conflicts El Salvador cited (Agadir and Magdalena) to support its complaint were irrelevant for Central American. According to Nicaragua, those crises entailed the power politics of world powers, not small countries. Nicaragua concluded its defense by citing sovereignty. Regardless of the opinions of neighboring countries, Nicaragua remained a sovereign state with the rights conferred on it, including establishing a naval base and entering into treaties. El Salvador did not have the right to intervene.

The Court’s decision for this case came in a number of parts. First, the Court had the jurisdiction to hear the case, a claim Nicaragua later tried to challenge. Second, the Court denied Nicaragua’s defense and supported El Salvador on the grounds that the bases would “menace” neighboring countries and violate co-ownership of the Gulf. Finally, the CACJ ruled that the Bryan-Chamorro Treaty violated the second and fourth articles of the Treaty of Peace and Amity signed between the republics in 1907. In fact, the decision went to great lengths to show that a ruling in favor of Nicaragua would not only be inconsistent with the High Bays principle, but would also negatively affect the international practice of common waters. “A change in the theory of the use of the common waters of the Gulf . . .,” the Court ruled, “would imply nullification of jurisdictional rights that should be exercised with strict equality and in harmony with the interests of the community” (Ibid, 57). As a result, the CACJ held Nicaragua legally responsible to suspend the articles of the Bryan-Chamorro Treaty, which was incongruent with the Washington Treaty Conventions.

## **Costa Rica vs. Nicaragua**

Costa Rica also brought a complaint before the Central American Court of Justice. The country objected to two points related to Nicaragua's engagement with the United States. First, the country objected to the Bryan-Chamorro Treaty on the grounds that Nicaragua failed to consult the country, as stipulated by The Cañas-Jerez Treaty (or Treaty of Limits). The two countries signed the treaty on April 15, 1858, under the guidance of the United States. Second, Cost Rica asserted that a canal constructed through Nicaragua harbored the potential to affect its territory (*Republic of Costa Rica* 1916).

The Cañas-Jerez Treaty was instrumental for Costa Rica's case. The treaty laid out the regulation regarding the contentiously shared Rio San Juan. Serving as the border between the two countries, the river was and continues to be commercially significant since it naturally connects the Atlantic with the Pacific Ocean. The treaty stipulated that although the river belonged to Nicaragua, Coats Rica had certain rights to navigate the waters. Cost Rica opined that Nicaragua violated the Cañas-Jerez Treaty. The treaty states that both countries had to enter into mutual negotiations if one wanted to alter the arrangement concerning the river (Pérez Zeledón 1887). Drawing upon the stipulations in the treaty, Nicaragua, therefore, could not enter into any agreement with the United States "without first hearing the opinion of the Costa Rican government" (*Republic of Costa Rica* 1916, 6). "The gift of nature" not only gave Costa Rican vessels and merchants the international right to navigate through the river, but it also provided a waterway free of tolls and other transaction costs. Furthermore, as in the case of El Salvador and Nicaragua, Cost Rica also argued that the river was under co-ownership (Ibid, 25-27).

Therefore, the Bryan-Chamorro Treaty violated the 1858 Treaty and the Washington Treaty because it gave Nicaragua dominion over co-owned property and imperiled Costa Rica's right to navigate neighboring waters.

The government of Cost Rica also pointed out that Nicaragua had not consulted its diplomatic officials. “[The Bryan-Chamorro Teaty] could not have been carried out without a flagrant violation of the clear treaties actually in force,” the Costa Rican government asserted, “which prevent Nicaragua from entering any interoceanic canal agreement without previously consulting Costa Rica” (Ibid, 92-93). The Costa Ricans further affirmed that U.S. President Grover Cleveland had actually accepted and legitimized the Cañas-Jerez Treaty. In fact, the government received *The Cleveland Award* for signing the 1858 treaty. “The Republic of Nicaragua remains bound not to make any grants for canal purposes across her territory,” the award stated, “without first asking the opinion of the Republic of Costa Rica, as provided in Article VIII of the Treaty of Limits” (Ibid, 7). In addition to citing the treaty, Costa Rica advanced another argument: Nicaragua and the United States actually signed the Bryan-Chamorro Treaty in secrecy. Costa Rican officials complained to Washington, protesting that they had heard of the treaty “in an informal way” and “[s]uch information has caused great surprise to my government” (Ibid, 92). In fact, Costa Rican lawyers actually sifted through newspapers concerning the treaty and primary official documents between Nicaragua and the United States to support their argument. In one instance, they found evidence of secrecy and the signing of the treaty in the *Congressional Record* of Washington D.C. The U.S. Senate debated and voted on the treaty without the consulting Costa Rica (Ibid, 22). Nicaragua, as in the case with El Salvador, offered a succinct rebuttal. The

government conceded that it entered into the treaty in secrecy. Nicaragua declared, however, that it did not ignore the concerns of Costa Rica. Furthermore, as a sovereign country, the Nicaraguans merely exercised their right to enter into an agreement, one of which would not cause harm to neighboring territory nor be in “any violation of the existing treaties between the two nations” (Ibid, 16).

The Court rendered its decision on May 1<sup>st</sup>, 1916. The Court ruled against Nicaragua. The CACJ observed that due to Nicaragua’s entrance into the Bryan-Chamorro Treaty, “existing treaties would be considered to be infringed” (Ibid, 38). Nicaragua could not enter into other treaties because it had signed previous treaties (i.e. The Cañas-Jerez Treaty). Therefore, the verdict held the following: “The Governments of Costa Rica and Nicaragua are under the obligation to maintain the status quo that existed between them prior to the Treaty that gave rise to the present controversy” (Ibid, 40).

### **The Court’s Demise**

Nicaragua’s Minister of Foreign Relations, J.A. Utrecho, nonetheless, rejected the Court’s decisions. Utrecho quickly conveyed his country’s decision to the United States. “[T]he powerful and just grounds which have compelled my government,” he wrote in a telegram, “to reach the unbreakable resolution to reject the awards rendered by the honorable Central American Court” (U.S. Department of State 1917c, 1111).

Nicaragua’s decision was the first step towards the demise of the Court. The Court depended on a ten year renewal by member states. The first ten-year period (1908-1918) came to an end. Displeased with the Court’s verdicts, however, Nicaragua, with strong U.S. support, refused to sign on for the second ten years. The other republics expressed

disappointment. Costa Rica tried to renew the Court to no avail (*New York Times* 1918). El Salvador affirmed its “deep pain” over Nicaragua’s decision through correspondence with both U.S. Secretary of State Robert Lansing and the Nicaraguan Minister of Foreign Relations (U.S. Department of State 1917d and 1917e, 31-33). In fact, even Guatemalan President Manuel Estrada Cabrera, against whom the Court ruled in the first case, later lauded the CACJ for working with “patriotism” and “good intelligence” on behalf of the Central American republics (Cabrera 1916).

Lament spread beyond Central America. Newspapers throughout the Americas deplored Nicaragua’s rejection of the verdict. The Argentine daily *la Nación* congratulated the work of the Court and denounced Nicaragua’s behavior as “an attack against the basic fundamentals of international relations” (*Nación* 1918, 8). *The New York Times* even urged the Wilson Administration to nullify the Bryan-Chamorro Treaty and rescue the CACJ. “The Court should be saved. It has done good work,” the paper declared, “the loss of the treaty would not be a heavy price to pay for the preservation of the court and for prevention of war” (*New York Times* 1916, 10).

Washington’s failure to be the guarantor of the Court, however, meant the end of the CACJ. As guarantor, the United States had the responsibility of defending the Court’s integrity and existence, regardless of its decisions. Nonetheless, Washington failed to raise any objections against Nicaragua’s decision. In fact, Secretary of State Robert Lansing believed that the Court failed to be useful in settling disputes and, thus, did not merit saving (Baker 1966). Washington also felt that the CACJ judges expressed partisanship in their decisions and that the Court failed to serve the interests of the isthmus (Salisbury 1989). As a result, Washington, focusing more on the developments

of the First World War, said little about the passing of the Court. Lansing merely offered assurance that his country would not harm Costa Rica if the United States were to construct a canal. “I am not able to perceive wherein the treaty which has been concluded with Nicaragua,” he wrote to Costa Rican officials, “can be thought to affect adversely any existing rights of the neighboring Republics” (*Republic of Costa Rica* 1916, 122). The Central American Court of Justice officially closed at 3:00 pm on March 12, 1918.<sup>65</sup>

### **U.S. Foreign Policy and Financial Interests**

The decision of Washington to support the Bryan-Chamorro Treaty and the destruction of the Central American Court had little to do with long-term national security interests or an interoceanic canal. After the intense lobbying of U.S. financial interests, Washington had already chosen Panama over Nicaragua for the location of a canal (see Espino 2001). The Canal’s construction (1904-1914) had already been long completed. Additionally, the United States had already solidified itself as the major force in the region. There was little fear of British or Russian competition. U.S. financial interests were the primary force behind the treaty. With the signing of the treaty, the Nicaraguan government would receive three million U.S. dollars. However, this money would, in turn, go directly to U.S. financial interests, particularly the bondholders of Nicaraguan debt.

Since the 1909 U.S. invasion to remove President José Santos Zelaya, Washington had a particular financial interest in Nicaragua. Through military intervention, the United States took over the country’s customs houses and national

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<sup>65</sup> This is according to The Chargé in Costa Rica (Johnson) to The Secretary of State [telegram], March 14, 1918, No. 713.001/71, *Foreign Relations of the United States*.



treasury. The intervention in Nicaragua, although of little interest to the average U.S. citizen, attracted protest from politicians. The U.S. Congress failed to approve direct action into Nicaragua since the initiative. In fact, Senator Augustus Octavius Bacon (1895-1914) from Georgia sponsored a resolution against U.S. troops in Nicaragua (Munro 1964). With a congressional sub-committee, Bacon, staunchly opposed to U.S. financial interests influencing foreign policy, traveled to Nicaragua to analyze the situation (*New-York Tribune* 1912). U.S. intervention in Nicaragua was in essence the beginning of “dollar diplomacy,” a term referring to U.S. force abroad to support economic interests (See Munro 1964 and Butler [1935] 2003). “The State Department had gone ahead with its financial projects in spite of the Senate’s refusal to approve them,” Dana Munro (1964) writes, highlighting the new dollar diplomacy Washington was exercising over Central America, “and that the power of the United States was being used to support private interests in profitable, speculative operations” (215).

By 1917, the United States had control over Nicaraguan financial activities. In addition to the control of customs unions, Washington created a High Commission, made up of both Nicaraguan and U.S. citizens, to manage bond debt and repayment (Jones 1933). The overall intervention demonstrates the growing influence financial interests began to exert over not only foreign policy, but also the State Department. A plan, orchestrated and supported by the State Department, was devised to agree upon the Bryan-Chamorro Treaty in order to pay off bondholder debt. Nicaraguan General Emiliano Chamorro supported U.S. financial interests. “President Chamorro’s message July 31, 1917, to the National Congress of Nicaragua at the opening of its special session,” U.S. foreign minister in Nicaragua, Benjamin L. Jefferson, wrote back to the

Secretary of State, “called to pass upon the plan of the Department of State for the settlement and reorganization of Nicaragua’s indebtedness” (U.S. Department of State 1917a, 1097). With a U.S. puppet government in charge, Washington could exert total control. “I have referred and to leave the balance of the three millions for the arrangements which would have to be made, in accordance with the Department of State,” Chamorro recognized, “by virtue of the former contracts with the bankers which gave to the latter the right to be paid with said money for the amounts loaned to the former government” (U.S. Department of State 1917b, 1098).

### **Conclusion: Lament and Foreshadowing**

The Central American Court of Justice demonstrates the possible steps the region can take to facilitate peace. It also shows how the United States may engage in a Better Neighbor policy. The Court’s closing, however, was both telling and unfortunate. The Court’s closing was telling because it characterized future relations between Washington and the rest of the Americas. The United States has historically focused on immediate interests, whether political or financial, at the expense of long-term stability, especially regarding international institutions. Washington ignored the sentiments of the Organization of American States (OAS) members when it invaded the Dominican Republic in 1965. The invasion discredited the organization and became, in the eyes of many Latin Americans, an emblem of imperialism (Longley 2009). In 1986, Washington also flouted the International Court of Justice (ICJ) ruling against U.S. involvement in the domestic affairs of Nicaragua. The ICJ, in response to Nicaragua’s complaint, ruled that U.S. policy violated Nicaraguan sovereignty, the country’s right to engage in maritime commerce, and humanitarian law stipulated in the Geneva Conventions. According to

the verdict, Nicaragua advanced substantial evidence demonstrating that Washington trained Nicaraguan exiles (la Contra) in guerilla warfare and intervened in its sovereign territory by mining the deep-water sea port in Corinto (Vanden 1991). Only three years later, the United States invaded Panama against the wishes of not only the OAS, but also regional allies such as Mexico and Brazil.

The closing of the Court was unfortunate because the CACJ achieved major accomplishments. First, contra realism, the Court represented a triumph for internationalism and international institutions. The internationalist movement fought to minimize war through international laws and institutions. The CACJ succeeded in this regard. Instead of sending troops into enemy territory, the parties sent lawyers and representatives to the Court. The CACJ broke the common practice of war and forged the initial step in the direction of peace and stability. This success is also important because it serves as a reminder that international institutions, under certain conditions, can minimize conflict by facilitating communicative channels and bringing parties together. Furthermore, the Court addressed contentious issues in international relations. Treaty engagement, sovereignty, non-intervention, the law of the sea, and border conflicts are all common disputes. The negotiations, settlements, and verdicts among the Central American republics could have helped forge international law and the customary practices between states. In fact, similar conflicts have continued to persist between the Central American republics, especially over Río San Juan, the contentious border between Nicaragua and Costa Rica. A recent case (*Costa Rica v. Nicaragua* 2011) in the ICJ is currently dealing with many of the same issues surrounding the river, such as sovereign territorial rights. Although the ruling does not cite the Central American Court

of Justice, the judges could have drawn upon the initial case in order to guide their decision-making in the current dispute.

Finally, this particular period in Central American history is crucial for obtaining a comprehensive understanding and balanced perspective of the region. The Central American nations are often pejoratively known as “Banana Republics” that remain mired in poverty and war. However, this period counters the more negative historical narratives and images of the region. The Central American republics came together to create a functional and effective supra-national institution that could have served as a model for other world regions embroiled in conflict. We cannot continue to allow academic and policy research to neglect this crucial part of Central American politics.

## CHAPTER 6

### COLD WAR CASE STUDY: THE TALE OF TWO STATE DEPARTMENTS AND THE 1979 NICARAGUAN REVOLUTION

#### Introduction

This Cold War Case study demonstrates how State Department-led diplomacy has the potential to create public goods. As the first part highlights, when diplomacy is prioritized, the United States can play a more positive regional role. This prioritization of diplomacy took place during the beginning years of the Carter Administration (1977-1981). Prioritizing a diplomatic approach not only helped create regional peace and stability, but also avoided an illegal invasion supported by the National Security Advisor. However, the second part of this chapter shows that when more influential bureaucratic agencies and players are able to marginalize diplomacy, the United States creates public bads, including regional instability, political terror, and an illegal war. The marginalization of diplomacy as a foreign policy tool took place during the second half of the Carter Administration and throughout the Reagan Administration (1981-1989).

This chapter includes least-likely and most-likely case studies. Least-likely cases help demonstrate the explanatory power of theories. A least-likely case study serves as a case in which the theory is least likely to function (George and Bennet 2005). The second part of this chapter, which compromises of the Reagan Administration's two diplomatic initiatives with Nicaragua, serves as a least-likely case study. Although the Reagan Presidency and the 1979 Nicaraguan Revolution has attracted a wide-range of scholarly attention, the genuine diplomatic exchanges have received little emphasis. In fact, most of the literature depicts the Reagan Administration's policy as a

bureaucratically homogenous approach.<sup>66</sup> However, there were great bureaucratic struggles over Washington's foreign policy approach to Nicaragua. State Department-led diplomacy, which would appear unlikely in such a conservative president's administration, had the potential to decrease conflict and create peace. Diplomacy, however, was marginalized by more influential bureaucratic players. The Carter Administration's diplomatic approach to the 1979 Revolution, on the other hand, serves as the most-likely case study. Although I later emphasize Carter's more bellicose approach to Nicaragua and foreign policy in general, the role of diplomacy during his administration would seem more likely than in the Reagan Administration. In order to demonstrate the explanatory power of this research, I end with a mini-case study that shows how on-the-ground diplomacy could have averted an illegal U.S. invasion of Haiti in 2004.

### **The Failure of the Alliance for Progress**

In the 1970s, when the Sandinista guerilla movement continued gaining popular support throughout Nicaragua, Washington grew more apprehensive. Since Cuba experienced a leftist revolution in 1959, the principal policy of the United States, regardless of the political party in charge of the White House, was to stem the tide of revolutionary movements. During the Cold War, all foreign policy initiatives toward Latin America revolved around this task. The federal government poured billions of dollars worth of resources into a project known as the Alliance for Progress (1961-

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<sup>66</sup> There are many examples. See Schoultz (1987).

1973).<sup>67</sup> Initiated by President John F. Kennedy (1961-1963), the overall goal of the Alliance was to make revolutionary movements less attractive, create popular support for the United States, and demonstrate that capitalism, not communism, could deliver economic and social benefits. In the words of President Kennedy, “To build a hemisphere where all men can hope for a suitable standard of living and all can live out their lives in dignity and freedom” (in Watson 2012, 49).

Although this partnership between the United States and Latin American nations has attracted a wide range of scholarly attention, it is worth noting that the Alliance, along with other diplomatic and foreign aid programs, failed to achieve its objective. The initiative did not garner wide-spread support for Washington. The Alliance also failed to create domestic stability and halt the growth of revolutionary guerrilla movements throughout the region. Even the U.S. Department of State’s Office of the Historian (n.d.) notes, “The Alliance did not achieve all of its lofty goals.” In fact, since the Alliance’s inception, scholars on Latin American studies have highlighted the program’s failure. As early as 1963, Edmundo Flores of Princeton’s Center of International Studies emphasized a key characteristic the Alliance lacked: Land reform. Flores (1963) points out that Washington had failed to carry out comprehensive reform due to its alliance with the more conservative elements in Latin American society, particularly the economic and political elite. Flores (1963) concluded that any land reform carried out by the Alliance had involved “unproductive land” or “uninhabitable areas” (8). Land reform that could produce genuine economic development and social stability, such as the reform that was initiated in Guatemala in the early 1950s, would be immediately undermined by

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<sup>67</sup> In 1973, the Organization of American States (OAS) decided to eliminate the permanent committee that created and implemented the programs of the Alliance for Progress. The author chooses this year as the end of the program.

Washington due to the economic interests of U.S. investors and the Latin American elite (Flores 1963; Schlesinger and Kinzer 1990). These influential groups would not allow progressive governments to encroachment upon their immediate interests for long-term social and economic benefits.<sup>68</sup> In addition to a lack of genuine economic reform, political reform failed as well. Democracy never flourished under Washington's initiatives. By the 1980s, almost every Latin American country was ruled by an authoritarian regime.<sup>69</sup>

Nicaragua stands out as a failure for the Alliance of Project and other pro-Washington aid programs. The United States government gave up to \$50 million worth of loans to the country under the initiative; the Inter-American Development Bank injected another \$50 million; and private U.S. companies invested roughly \$75 million dollars in the 1960s, making Nicaragua the highest recipient of U.S. investment (LaFeber 1983). Despite Washington's persistent efforts to stem the tide of leftist Latin American revolutionary movements, the overthrow of the Somoza dynasty (1936-1979), the Nicaraguan family that ruled the country for over forty years, looked inevitable as the guerilla forces took more strategic areas and culled more popular support. The Carter Administration's disapproval of Anastasio Somoza Debayle (1974-1979), the last member of the family to rule the country, was genuine. Due to Somoza's human rights abuses, the president cut off aid in 1977, indicating that his administration was flexible to a change in regimes (Lynch 2011).

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<sup>68</sup> Bolivia appears to be on exception. During the Eisenhower Administration (1953-1961), the State Department encouraged the support of the Bolivian National Revolutionary Movement, which engaged in land reform and other economic and social programs that stepped on the domestic elite's interests. This created stability within the country. See Zunes (2001) for more information.

<sup>69</sup> The notable exception was Cost Rica.



## **To Invade or not to Invade: The State Department v. The National Security Advisor**

Carter, however, did not desire a new government with both anti-Washington and Marxist sentiments. Within his administration, an internal bureaucratic debate on the best path to manage the revolution ensued. The staunch interventionist side of the debate came from National Security Advisor Zbigniew Brzezinski. Brzezinski advised the president that the revolution should be stopped by any means available, including unilateral military action.<sup>70</sup> The U.S. Secretary of State Cyrus Vance agreed with intervention and the need to control and steer the revolution in a more pro-Washington direction so that the administration did not “lose” Nicaragua. Vance’s support for intervention, however, came with specific reservations. The Secretary of State concurred with Brzezinski but only to the extent to which U.S. intervention could be legitimated under the aegis of the Organization of American States (OAS) and carried out multilaterally. Essentially, Vance did not want to go it alone.

As with a number of policy issues, Vance and Brzezinski failed to arrive to a mutual agreement. Although the contentious foreign policy debates between the State Department and the National Security Advisor during the Carter Administration have already been explored in both academic and policy literature, there is little scholarship not only on the administration’s effort to invade Nicaragua, but also the results that could have occurred if Carter had privileged Brzezinski’s unilateral option over Vance’s multilateral approach. In fact, Vance fails to even mention the effort to seek OAS approval for a 1979 Nicaraguan intervention in his 1983 memoir *Hard Choices*. This study, therefore, focuses on the Administration’s diplomatic effort to gain support for an

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<sup>70</sup> There are a number of sources detailing Brzezinski, including Cottam (1992), Nuez (1978), and Brzezinski (1986).

invasion, or as the Carter Administration called it, a “peacekeeping presence” (U.S. Department of State 1979, 4), the bureaucratic struggle, and finally Carter’s decision to privilege the advice of the State Department over that of the National Security Advisor.

Secretary of State Cyrus Vance personified the value and objective of the purpose behind the United States Department of State: To advance diplomatic solutions, multilaterally if possible, to resolve conflict throughout the world. Although diplomacy cannot resolve all international issues peacefully, multilateral diplomacy must be considered initially because it often serves as the most efficacious way to address world issues.<sup>71</sup> “Whenever possible, we must practice a new kind of diplomacy,” Vance (1983) stresses as a way to address foreign policy issues, “an inclusive diplomacy of working together with others to achieve common goals” (434). Brzezinski, on the other hand, has found diplomacy and the State Department to be an inadequate means for addressing foreign policy challenges. The former National Security Advisor’s efforts to bypass the Department of State and his disdain for many of the Department’s agencies demonstrate his intolerance for diplomacy. “The Policy Planning Council in the State Department,” Brzezinski (1986) contends, “is not the right vehicle because all too often the State Department tends to confuse diplomacy with foreign policy” (243). Brzezinski essentially claims that the NSC is the correct vehicle to formulate policy, not State Department-led diplomacy.

By 1978, The Carter Administration was calling for a multilateral peacekeeping mission in Nicaragua. On June 21, 1979, Vance made his case at the OAS. Before the regional supranational body, the Secretary of State stated that his aim was to create “an

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<sup>71</sup> The most conventional example of failure in international diplomacy is the Munich Agreement, in which diplomacy failed to curb Nazi expansion throughout Europe.

OAS peacekeeping presence to help establish a climate of peace and security” (in Arnson 1989, 311). The initiative failed to gain any support; for the vast majority of Latin American states voted against such a mission. The failure to persuade other Latin American countries, even allies such as Brazil, which was ruled by a center-right military dictatorship, served as an impediment to U.S. policy. The overall objective of the Carter Administration was to create a legitimate coalition to at least control the revolution and gear the movement towards a less radical direction. Carter’s aim was to not only undermine the broad-based revolution and its independence from U.S. interest, but also create a regime of “Somocismo without Somoza” (Vanden 1991). In this model for a new Nicaraguan government, the new regime would be made up of former national guardsmen who would support U.S. geostrategic and economic interests. “Some National security forces must remain to maintain some order after Somoza’s departure,” Lawrence Pezzullo, the U.S. Ambassador wrote, “[o]therwise the vacuum we all wish to avoid will be filled by the FSLN” (in Kornbluh 1990, 324).

After the OAS rejection, a bureaucratic dispute ensued. Brzezinski viewed a unilateral invasion as the optimal strategy. He strongly lobbied Carter to advance an intervention regardless of the OAS result. “We have to demonstrate that we are still the decisive force in determining the political outcomes in Central America,” Brzezinski warned the President, “and that we will not permit others to intervene” (in Pastor 1987, 162). The State Department, however, aimed to avoid the mistakes of prior administrations. It did not want to isolate the new Nicaraguan government and escalate hostilities, as Washington did in the case of Cuba in the aftermath of the 1959 Revolution. The Eisenhower Administration, failing to meet Castro and taking a strong

stance against the revolution, pushed Castro and other top Cuban officials into the hands of the Soviets.<sup>72</sup>

In the end, the president privileged the approach of Vance over the unilateral interventionist approach Brzezinski. He heeded the multilateral call of the Department of State. In lieu of taking the unilateral intervention option, the president opted for a diplomatic path. For the Secretary of State, this would be the optimal option; going in alone without the assistance of other Latin American nations would have been disastrous. Such an intervention would not only alienate Nicaragua, but also much of Latin America. After the State Department won the bureaucratic battle, the guerrillas were able to take Managua on July 19, 1979. The administration further advanced diplomatic overtures through the carrot-and-stick technique supported by Vance. Carter not only offered the ruling junta \$90 million in recovery aid (Linsenmeyer 1989), but also invited the five principle member of the new ruling Junta to the White House. U.S. Ambassador to Nicaragua, Lawrence A. Pezzullo (1979-1981) further supported the diplomatic overtures. He believed a diplomatically engaging the Sandinistas was the optimal strategy to sustain influence in the country (Gutman 1988).

The Administration's policy toward Nicaragua was based upon privileging the diplomacy of the State Department over the hawkish advice of the NSA. The argument that Carter's decision for diplomacy may be attributable to his personality or religiosity is tenuous. Carter, contrary to conventional wisdom and common depictions of his character, failed to be a persistent human rights advocate or even dove on foreign policy issues. On most issues, he privileged hawkish national security policies over human

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<sup>72</sup> Some scholars have challenged this description of events. For an overview of the Eisenhower Administration's approach to the Cuban Revolution and the challenge, see Paterson (1994) and Luxenberg (1988).

rights concerns. In Asia, he openly supported the Cambodian genocidal regime of Pol Pot and the Khmer Rouge because they were at war with Vietnam, our communist enemy. What is more, Carter maintained strong relations and support for perennial Indonesian dictator Suharto (1968-1998) despite his record of egregious human rights abuses and genocide. The president set up a “Bilateral Working Group” and other initiatives to provide economic aid, export credits, and overall support for the regime (U.S. Department of State 1978, 32). Scholars and human rights activists have documented the genocidal policies of Suharto in East Timor, a small archipelago area that gained official independence from Indonesia in 2002.<sup>73</sup> In fact, many scholars have challenged the view that Carter was as human rights-oriented and dovish as conventional wisdom has described him (see Aronoff 2006).

It is also worth noting that although Carter indicated that the Secretary of State and State Department would play a more prominent role in foreign policy decision making, that role diminished throughout his presidency. “I intend to appoint a strong and competent Secretary of State,” the president-elect stated to the Senate Foreign Relations Committee in 1976. For the first years, Carter’s kept his promise. The State Department was not marginalized. Secretary of State Vance and under Secretary of State Warren Christopher still had the President’s ear and, thus, influence over policy. The State Department and diplomacy, however, fell out of favor. Growing more cynical and skeptical over the motives of the Soviet Union, particularly after the invasion of Afghanistan in December of 1979, the president became more hawkish toward foreign policy (Nebow and Stein 1993). Diplomacy, as a result, appeared less attractive than the militarist approach of the NSA. As Brzezinski (1983) later noted, the Policy Review

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<sup>73</sup> For genocidal atrocities in both East Timor and Cambodia, see Kiernan (2008).

Committee, set up initially by Carter to function under Secretary of State Vance, would finally fall under the National Security Advisor's influence. Brzezinski, an experienced and aggressive bureaucratic player, took advantage of Carter's skepticism. He would use his agency, the Special Coordinated Committee, to influence policy making and become more powerful than Vance, usurping all policy influence (Inderfurth and Johnson 2004). In fact, the latter years of the Carter Administration witnessed a more bellicose approach to addressing the Nicaraguan Revolution. The diplomacy advocated by Vance quickly became supplanted by the more hostile and militaristic approach of Brzezinski. Carter personally signed a secret CIA approved document that would surreptitiously fund the opposition newspaper *La Prensa* (Linfield 1991). He also ceased supplying aid to the new Nicaraguan government. In the wake of the Sandinista Revolution, Carter also decided to approve military aid to the Salvadoran military, despite evidence of egregious human rights abuses, to stem the tide of guerrilla revolution (Ram 1983). The whole concept of Carter being a dove or even one who privileged human rights over strategic concerns has been reevaluated in scholarly literature after his presidential departure (see *Ibid*).

The initial reliance on State Department influence, however, raises one fundamental question: How did privileging State Department diplomacy over the more hawkish unilateral approach of the National Security Advisor and other policy makers actually produce public goods? The Carter Administration did its utmost to control the Sandinista revolution. As mentioned above, there were two avenues to achieve this objective: Multilateral or unilateral action. The administration first attempted a multilateral approach. Such a move could have incorporated participants from all over

Latin America, including those who were sympathetic to the revolution, such as Venezuela and Mexico. With the OAS rejection, the administration had to decide to accept and manage the new government diplomatically or invade Nicaragua. Although the Carter Administration relied upon friendly discourse such as a “commission of friendly cooperation” and the “mediating commission” for its intervention (Nuñez et al. 1978, 64), a unilateral action would have been disastrous. Brzezinski and the other bureaucratic hawks underestimated two crucial Latin American phenomena: The wide spread contempt throughout Latin America against U.S. interventionism and the unwavering domestic support for the Sandinista Revolution.

First, Latin American countries from a broad ideological spectrum progressively grew fearful of U. S. military intervention. The U.S. unilateral invasion of the Dominican Republic in 1965 significantly undermined U.S. regional credibility and the multilateral purpose of the OAS (Longley 2009). Although the United States was finally able to persuade the OAS to finally vote for a peace keeping mission in a last ditch attempt to muster credibility after the invasion, the intervention was essentially a unilateral affair with roughly 25,000 U.S. troops entering into the country. The peace keeping commission was hardly multilateral, consisting mostly of a handful of troops from a limited amount of Latin American countries. Anti-United States and anti-interventionism, which was already gaining ground, spread throughout the Americas and became a ubiquitous presence. Richard Nixon, then vice president under President Dwight D. Eisenhower (1953-1961), experienced this resentment when his motorcade was attacked physically and verbally during a goodwill trip through Caracas, the capital of Venezuela in 1958. U.S. unwavering support for the brutal Venezuelan dictator

Marcos Pérez Jiménez (1953-1958), among other foreign policies, contributed to the anti-Washington sentiments.

Nicaragua experienced similar sentiments toward Washington and Somoza. This hatred for the U.S.-supported dictatorship gave the 1979 Revolution tremendous support. Although the history and brutality of the dynasty, as well as the broad ideological, societal, and class coalition to overthrow the dictatorship, is well-documented by scholars (see Booth et al. 2009; Baltodano 2010), it is worth noting that these factors would have made a U.S. invasion a disastrous decision. By squandering foreign aid on family fortunes, denying economic opportunities to non-Somocistas, squelching dissent through institutionalized violence, stealing foreign donations from the 1972 Managua earthquake, and running the country like a personal fiefdom, Somoza had marginalized most sectors of the country. An extensive part of the population made up of women, teenagers, and men had already been fighting and dying for over a decade. Few Nicaraguans would have welcomed a U.S. force that would have maintained the unpopular and dreaded National Guard, the military agency that kept the Somozas afloat. As one Nicaraguan participant in the revolution, who later broke with the Sandinistas in the 1980s, stated “in 1979, we were all Sandinistas” (personal communication 2002).

A unilateral invasion, therefore, would have been disastrous. With strong support for the revolution and an equally strong disdain for U.S. foreign policy, the Nicaraguan guerillas and population would not have accepted the intervention. In fact, evidence suggests that they were prepared to fight any force that would have maintained Somoza’s National Guard. As early as 1978, a civilian Sandinista junta, formed in 1977 from



diverse economic and social sectors of Nicaraguan society,<sup>74</sup> began denouncing U.S. overtures for a multilateral intervention. They accused the United States of trying to “infringe on the popular movement” and called the OAS “The Ministry of Yanky Colonies” (Nuñez et al. 1978, 64). Other primary documents and interviews from Nicaragua strongly suggest that a U.S. presence would have been met with extreme force; the Sandinistas had been fighting for over a decade to remove Somoza and this highly mobilized and armed movement were not going to allow Washington, which had been occupying Nicaragua since the early nineteenth hundreds, to undermine the popular revolution (see Baltodano 2010). The State Department, by winning the bureaucrat war, avoided the death of not only U.S. civilian and military personnel, but countless Nicaraguans. Diplomacy further avoided a unilateral military failure in Latin America that would have been based on gross miscalculations. As Robert McNamara (2003), former U.S. Secretary of Defense (1961-1968), notes of the Cuban Missile Crisis, U.S. officials significantly underestimated the military buildup of Russian and Cuban soldiers on the island. An invasion would have been disastrous due to the miscalculation of Russian and Cuban troop preparation. Brzezinski seriously miscalculated the revolution. The former National Security Advisor continued to offer his support for an invasion. “Soviet leaders must have realized that logistical and geographical factors ordained that the United States,” Brzezinski (1986) claims, “would succeed in any determined military action and that Nicaragua itself was not worth at this time a direct American-Soviet collision” (96). By merely focusing on the Soviet Union, Brzezinski overlooked the actual popular guerrilla movement that carried out the revolution in the first place.

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<sup>74</sup> The following Sandinistas the junta that advanced the response against U.S. intervention: Orlando Nunez, Carlos Fernando Chamorro, Julio Lopez Campos, and Pascua Serres.

## **Missed Diplomatic Opportunities: Reagan's Transition Team and the Manzanilla Accords (1981-1984)**

Once Ronald Reagan became president in 1981, his political posture toward the Nicaraguan Revolution was clear: To roll back the perceived communist takeover in the U.S. sphere of influence. Reagan continually decried the “Marxism-Leninism” infiltration into Central America. The president painted the Sandinista government as the “enemy” of the United States, justifying his unwavering, yet nationally and internationally unpopular support for the counter-revolutionary groups the Contras, guerrillas aiming to overthrow the Sandinistas from neighboring Honduras and Costa Rica. During his 1980 speech to accept the Republican presidential candidacy, Reagan specifically denounced the Sandinistas. “We deplore the Marxist Sandinista takeover of Nicaragua,” Reagan stated (in Leiken and Rubin 1987, 515). Unlike the outgoing president, Ronald Reagan was prepared to use force in order, as he famously and repeatedly stated, “to make the Sandinistas cry uncle.” The Sandinistas never refrained from rhetoric as well. Nicaraguan President Daniel Ortega (1985-1990 and 2007-present) referred to Ronald Reagan as “worse than Hitler” (in Rushdie 1987, 55).

Although scholars of all disciplines have written endless volumes on the Nicaraguan Revolution and Ronald Reagan's foreign policy, one area has attracted scant academic attention: The diplomatic initiatives that took place between Washington and Nicaragua. The diplomacy between the two governments is important for a number of reasons. First, despite the intrinsic contempt both the Sandinistas and the Reagan Administration had for each other, genuine diplomatic negotiations were advanced. More important for this dissertation, these initiatives demonstrate missed opportunities to

decrease tension and create peace. The principle cause for the missed opportunities stems from the bureaucratic wars between the major players. Conservative “hawks” in the administration from the National Security Council (NSC), military branches, and the Central Intelligence Agency (CIA) successfully undermined and marginalized State Department attempts to conduct fruitful diplomacy. The persistent and successful attempts to undermine and marginalize diplomacy caused serious problems for the State Department. Instead of remaining an influential governmental body to consider and exercise diplomatic solutions to foreign policy issues, it lost all independence and integrity. The State Department inevitably became a politicized propaganda arm for the victorious bureaucratic players. In lieu of advancing alternative policies, State Department officials wrote reports, gave speeches, offered congressional testimonies, and disseminated propaganda that supported the hawkish members of the Reagan Administration.

For the purpose here, I differentiate the failed diplomatic attempts into two general initiatives: The Reagan Administration transition team (1981-1982) and the Manzanilla Accords (1984). Most accounts of the Reagan Administration transition team are not very flattering. Latin American scholars have lambasted, often for good reason, Washington’s policies and inflexible posture against progressive movements throughout the Americas (see Schoultz 1987). Ronald Reagan, along with many of his conservative advisors, failed to understand that many of the center-left movements, particularly in Central America, were fighting for social and economic justice, not to create a Soviet satellite state. However, before the Reagan Administration formed a coherent Central American policy, different ideas and initiatives floated around in the first year. Many

members in the State Department endeavored to sustain and deepen the diplomatic space created by the Carter Administration. However, unlike the previous case in which the State Department scored a significant win over the National Security Advisor, the State Department lost the first bureaucratic war over Nicaraguan policy.

The Second diplomatic initiative took place in the small Mexican town of La Manzanilla, Jalisco, located in the southwestern part of the country. The Accords entailed a 1984 multilateral diplomatic effort between the United States State Department, the Nicaraguan government, and Mexico, the principal independent mediator. For the second time during the eight years of the Reagan Administration,<sup>75</sup> the State Department, again in a non-politicized effort, set out to do what the department is intended to do: Negotiate multilateral accords to decrease regional tension and create positive peace. The diplomatic efforts supported by then-Secretary of State George Shultz, however, were completely marginalized by other members of the administration. The State Department lost the bureaucratic war over Central American policy. As a result, the illegal war, by both domestic and international standards, continued until the Sandinista ruling party lost the Nicaraguan presidential elections in 1990.<sup>76</sup>

### **Reagan's Transition Team**

State Department diplomats began negotiations with the new Nicaraguan Junta in the initial year of the Reagan Administration. Lawrence Pezzullo, the Nicaraguan Ambassador (1979-1981) and Carter-Administration leftover, strongly favored

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<sup>75</sup> Another case to be explored is the State Department bargaining prior to the invasion of Grenada. This particular case, which fits the argument of my dissertation, highlights the State Department's efforts to reach a successful multilateral agreement with government officials prior to the 1983 invasion.

<sup>76</sup> I call the war "illegal" due to: a.) The ICJ case ruling U.S. intervention illegal by international law; and b.) the Iran-contra affair, which exposed the administration's efforts to bypass the democratically-elected U.S. legislature to fund the contra through illegal means.

diplomatic negotiations over coercion, force, and the suspension of economic aid. As mentioned above, many diplomats feared alienating the new Nicaraguan government in the same fashion as the Eisenhower Administration did with Fidel Castro after the Cuban Revolution in 1959. Thomas Enders, the Assistant Secretary for Inter-American Affairs (1981-1983), also stressed a diplomatic route opposed to military force or support for the Contras, the counter-revolutionary group based primarily on the borders of Honduras and Costa Rica that aimed to overthrow the Sandinista government throughout the 1980s.<sup>77</sup> In fact, clandestine support for the counter-revolutionaries enjoyed scant support in the Department of State. “In actuality, support for the rebels was hotly disputed and had little or no support among those State Department officials,” writes Roy Gutman (1988), author of *Banana Diplomacy*, a punctilious account of U.S. policy towards Nicaragua under the Sandinistas, “with whom Enders had relations and mutual respect” (64). Even the hawkish conservative Secretary of State at the time, Alexander Haig (1981-1982), who barely lasted a year at his post, was reluctant to support the counter-insurgencies. As a result, there was a movement within the Reagan Administration to initiate diplomacy as a policy tool.

Both Enders and Pezzullo traveled to Managua in order to negotiate with the Sandinistas. The objective of the talks was to highlight a number of pivotal points, particularly U.S. acceptance of the following: a.) the revolution’s triumph over the Somoza dictatorship; b.) Nicaragua’s non-alignment movement (neither aligned with East nor West); and c.) the 1947 Rio Treaty, which reconfirmed that Washington would

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<sup>77</sup> Las Contras was a general term applied to the counter-revolutionary forces fighting against the Nicaraguan government. Although a number of groups formed including Fuerza Democrática Nicaragüense (FDN), Alianza Revolucionaria Democrática (ARDE del Sur), YATAMA, and Misura, they became known as the Resistencia collectively. For a study of the Contra from a former member, see Pérez (2006).

abstain from using force against the country (Gutman 1988). The diplomats, however, communicated their concern about a number of other points. Most importantly, these included the presence of Soviet and Cuban troops and Nicaraguan support for the growing guerrilla movement in El Salvador. As Enders stressed in a letter to President Ortega, “The continued use of Nicaraguan territory to support and funnel arms to insurgent movements in the area would pose a surmountable barrier to the development of normal relations between us (in Leiken and Rubin 1987, 527). Despite legitimate fears between both countries, the initial advancements by the State Department were met with optimism by the new Nicaraguan junta. Enders conceded that Washington viewed the revolution as irreversible. “We recognize that the defeat of Somoza is an accomplished fact” Enders reinforced (in LeoGrande 1992, 120). Daniel Ortega, leader of the Junta and later president of Nicaragua (1985-1990; 2007-present), found Ender’s proposals and concerns “reasonable” (in Ibid 120).

Despite the diplomatic overtures, powerful bureaucratic players were able to undermine and discredit diplomacy as a policy option. Hardliners included the Director of Central Intelligence William J. Casey (1981-1987), Secretary of Defense Caspar Weinberger (1981-1987), U.S. Ambassador to the United Nations Jeane Kirkpatrick (1981-1985) and National Security Advisors William P. Clark, Robert C. McFarlane (1983-1985), and John Poindexter, among others throughout the administration. Even before diplomatic avenues were exhausted, hardliners were able to convince the president to completely cut off \$7 million of aid. The Sandinistas learned that aid the administration would not renew aid during Ender’s negotiations (LeoGrande 1992). Cutting off financial relations with the new government brought about protest from

diplomats. From the point of view of Pezzullo and Enders, eliminating aid severed Washington's ability to apply leverage over the Nicaraguan government; essentially, aid could be used to alter the Sandinistas behavior (Gutman 1988). Pezzullo even apologized to Sergio Ramírez, a Sandinista junta member who later became the Nicaraguan vice president (1984-1990). "Look, I'm sorry," Pezzullo lamented, "this is not the way it was supposed to be" (in Gutman 1988, 37).

Moreover, administration hardliners had already begun to encourage, organize, and support the counter-revolutionaries in Honduras. Supporting a counter-revolution, however, was a policy that U.S. diplomats in Managua reconfirmed Washington would not exercise. In fact, President Reagan himself never gave the green light for a number of these hard-line initiatives. The CIA Chief of Latin America Duane "Dewey" Clarridge had already traveled to Honduras to give the Honduran government the tacit support to assist in trying to overthrow the Sandinista government. Clarridge, however, did not even have presidential approval for his initiatives (Ibid). Instead, Clarridge, a close confidant of Casey, was more of a lobbyist within the administration for the hard-line approach against the new Nicaraguan government. "But Dewey cut corners and rammed things through," one U.S. official close to intelligence remarked, "he crossed the line from being a professional intelligence officer to being an advocate" (in Ignatius and Rogers 1986, 234).

The first round of diplomatic overtures failed due to the bureaucratic wars that marginalized the State Department initiatives. When Ronald Reagan took over the White House in 1981, the president had not formulated or crystallized a formal and consistent Central American policy. According to the deputy director of the CIA at the time, Robert

Gates, there was “no agreement within the administration . . . on our real objectives” (in Scott 1997, 243). Within this atmosphere, struggles ensued over policy. Powerful figures, as the case of National Security Advisor Brzezinski before them, successfully denigrated the State Department’s diplomatic approach and did their utmost to undermine diplomatic advances. National Security Advisor William Clark was tired of the State Department’s “candy ass approach” one aide stressed (Gutman 1988, 136). Another Washington insider referred to the State Department as “cookie pushers” (Ibid, 135). In addition to Clark, Casey and soon-to-be National Security Advisor Robert McFarlane demanded a “harder action” compared to Ender’s diplomatic approach (Ibid, 71). The deputy director of politico-military affairs Oliver North (1983-1986) bluntly stated that he opposed any talking “with the enemy” (Ibid, 209). In the book *In Our Own Backyard*, William LeoGrande (1992) observes that Enders had experienced the most difficult time with diplomacy not in Nicaragua, but in the United States. “When Enders returned to Washington,” the author writes, “he found that selling the deal to the rest of the administration was than selling it to the Sandinistas” (20). Gutman (1988) further points out that, not only bureaucrats, but also the whole CIA, “outflanked” Enders and his diplomatic initiatives (72). The hardliners in the NSC, CIA, and other agencies were able to use Reagan’s lack of formal policy and the vast bureaucracy to completely wage war on the State Department, marginalize any diplomatic initiatives, and finally control policy. In the end, although Enders tried his utmost to steer foreign policy, he finally recognized that the NSC held the most influence (Gutman 1988).

U.S. diplomats were not the only ones concerned with the diplomatic struggles. To the surprise of many members of the Nicaraguan Contra resistant movement, the CIA



completely usurped control over the development and direction of the counter insurgency, demonstrating the extent to which the hardliners controlled policy. Even Contra members complained about the CIA's virtual takeover of their operation. Justiano Pérez, a prominent member of the Sandinista resistant group called the Legion of September Fifteen and supporter of the *Indigenous Struggle* against the Sandinistas has written extensively on the virtual take over by the CIA. In *Los Albores de la Resistencia Nicaragüense*, Pérez (2006) discusses how then-CIA director William Casey and other agency operatives imposed Enrique Bermudez, a former National Guardsman for Somoza, as head of what later became known as "the Contra." Pérez (2006) points out that instead of strategizing against the Sandinistas, Bermudez was much more concerned with consolidating power. His initial attacks were not against the government in Managua, but the independent grass roots Contra initiatives. "The first attacks of the FDN were not against sandinismo," Pérez (2006) writes, "[but] against the Legion" (60). The Contra under Bermudez created "black lists" and utilized the "same procedures and habits of the old G.N. [Guardia Nacional]" (Pérez 2006, 60). Essentially, instead of allowing an organic and legitimate movement to develop against the Sandinistas, the hardliners in Washington not only controlled U.S. policy, but also imposed its own counter-revolutionary version of a movement, one with little credibility. In fact, Collin Powell reflects Washington's desire to impose Bermudez as the head of the Contra operation. "Colonel Enrique Bermudez, military commander of the contras, Powell (1995) writes, "impressed me as a true fighter, ready to die for his cause" (328). Powell, who worked as a top military advisor to Defense Secretary Casper Weinberger and later

became National Security Advisor to the president (1987-1989), failed to understand the lack of legitimacy and support Bermudez and the Contra had in the region.

For all the State Department's faults,<sup>78</sup> the agency did try to initiate diplomacy. Even the Sandinistas themselves appreciated the diplomatic overtures, recognizing that they had also missed diplomatic opportunities advanced by Enders. "[Nicaraguan President] Ortega welcomed Ender's visit as a momentous occasion," Gutman observes (1988, 69). Regardless of how skilled diplomats were in the vast governmental bureaucracy, they never were able to exert enough influence over the Reagan Administration's foreign policy. If they had, both the Nicaraguan government and State Department officials admit the early years of U.S.-Nicaragua relations could have gone in a different direction. In fact, the new Nicaraguan junta was meeting the demands initially laid out by Washington. As the first Secretary of State for the administration, Alexander Haig later wrote in his book *Caveat*, "The flow of arms into Nicaragua and thence into El Salvador slackened, adding, "a signal from Havana and Moscow that they had received and understood the American message" (in Smith 1987, 91-92). Enders also admitted that the Sandinistas had halted the inflow of weapons into El Salvador (LeoGrande 1992). Enders believed that a two track approach—pressure and diplomacy—was the optimal way to address the new revolution (Leiken and Rubin 1987). The plan appeared to be working in the early years. Nonetheless, the hardliners in the administration decried diplomacy. As they had predicted, once the hardliners were able to sabotage diplomacy, they could take a more bellicose approach. As Gutman (1984) points out, once

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<sup>78</sup> Criticisms of the State Department are ubiquitous in the scholarship during this time. See Schoultz (1987) for in-depth criticisms.

diplomatic talks broke down in 1981, “the administration’s energies went into a build-up of military pressures” (4).

### **The Manzanilla Accords**

The second diplomatic opportunity came with the Manzanilla accords in Mexico in 1984. The replacement of Alexander Haig by George P. Shultz as Secretary of State in July of 1982 had two important meanings. The first meaning demonstrated the general acceptance of the State Department in the world: A messianic hawk and a former military general like Haig did not fit in well at the more diplomatically-minded State Department filled with Foreign Service Officers. Although Haig did initiate diplomacy during his short tenure, his hawkish views rose to the surface. For example, Haig once remarked that, given the orders, he could turn communist Cuba into “a fucking parking lot” (in FitzGerald 2000, 169). As acclaimed journalist Francis FitzGerald (2000) would note, “this was not what Baker, Meese, and Deaver wanted to hear from the secretary of state” (169-170). The second and most important meaning for this case study is the wide-spread optimism Haig’s replacement inspired in both the United States and Nicaragua. Many influential figures involved in foreign relations were content with the change. Even members of the Sandinista government viewed the replacement of Haig, a hardliner, with optimism. Augusto Zamora, the Nicaraguan international lawyer who helped bring the United States to the International Court of Justice during the 1980s, demonstrated a cautious optimism when Shultz took over. “The change in the Secretary of State created hope, although minimal,” Zamora writes (1996), “for a change in U.S. foreign policy towards Nicaragua” (239). This optimism, however, came with a healthy incredulity. Nicaraguans, U.S. politicians, and activists who protested Reagan’s approach knew that

Shultz was still a republican ideologue. Nonetheless, with criticism of Haig mounting in the U.S. press and the administration itself (see Der Derian 1987), the State Department required an individual who could fill a more diplomatic role.

Shultz, nonetheless, continually made his contempt for the Sandinistas clear. “They are not democratized,” he once declared in a news conference, “[t]hey continue to support subversion in neighboring countries” (in Pear 1988, A6). However, with growing dissatisfaction with Reagan’s handling of the Nicaraguan problem growing in the United States, a diplomatic course was more appropriate than of coercion. Powerful politicians such as the Speaker of the House Tip O’Neil (1977-1987), Congressman Edward P. Boland (1953-1989) and senators John Kerry (1985-2013), Tom Harkin (1985-present), and Christopher Dodd (1981-2011) served as roadblocks by voting and protesting the hard-line agenda of supporting the Contra and taking a militaristic stand against Nicaraguan. The Kerry Committee report, which resulted from a number of congressional hearings on the illegal Contra war, found that members of the State Department actually paid contras who were involved in drug trafficking (see Cockburn and St. Sinclair 1998). Additionally, a number of embarrassments such as the illegal mining of Nicaraguan ports and increasing information that the Contra was a weak band of drug-dealing thieves wasting U.S. tax-payers dollars further complicated matters for the Reagan Administration. As a result, genuine multilateral negotiations were resuscitated by both Washington and the Nicaraguan government.

The Manzanilla accords began in Mexico in June of 1984 after Secretary of Shultz gave a surprise visit to Managua as sign that the State Department wanted to continue talks. Although many scholars and policy makers were skeptical of the

negotiations (see Gutman 1988, 211-213), the multilateral talks created space in which each side could not only discuss its grievances, but also advance genuine dialogue and solutions. “For the first time,” Sergio Ramirez, who would become the Nicaraguan vice-president in 1985, stated, “we’re talking with the U.S. and not just listening to the U.S.” (in Russell et al. 1984). Another United States official reflected Ramirez’ optimism: “You can say we've taken the first step toward improving relations” (in *ibid* 1984). By the fourth talk (there were nine in all) a representative in the Mexican Foreign Ministry declared that the negotiations had addressed “substantive issues” (in Orme 1984, A26).

The Manzanilla talks, initially carried out by U.S. Special envoy Harry Shlaudeman and the Deputy Foreign Minister for Nicaragua Víctor Tinoco, highlighted many of the previous issues discussed in earlier diplomatic negotiations. The Sandinistas continually focused on Washington’s support for the Contra, whereas Washington stressed Cuban and Russian influence in Nicaragua, as well as Sandinista support for the Salvadoran guerrillas. The Nicaraguans were particularly concerned with the “low-intensity war” the United States had waged against the country (Tinoco 1988, 30). Essentially, through the proxy Contra groups on both sides of Nicaragua (Honduras and Costa Rica), Washington had created a low-scale war against the Sandinistas. Despite profound differences, throughout the negotiations both sides made valuable contributions. The State Department advanced support for the underlying tenants of the Contadora Group, which later became the base for the Esquipulas Peace Agreements II.<sup>79</sup> Both the Contadora Group and Esquipulas II came from regional Central American and Latin American initiatives after the 1981 round of diplomatic initiatives failed to produce

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<sup>79</sup> The negotiations and accords the Contadora Group and Esquipulas Peace Agreements can be quite dense. For a punctilious description and analysis, as well as their influence after the Cold War, see Ordóñez and Gamboa (1997).

concrete results between Washington and Managua. Although they experienced varying degrees of success, both agreements highlighted important points. Most importantly, the Contadora Group and Esquipulas II called for regional initiatives to settle the conflict that plagued Central America. Since the other Central American governments were involved, they shared their disapproval with Soviet and Cuban military advisors in the area as well as support for leftist guerrilla insurgencies. Governments from both Central and South America, however, conceded that the conflict was a Central American problem. U.S. direct and indirect intervention, the agreements stressed, was not the solution. Central American countries must negotiate among themselves. Regional negotiations still meant strong stipulations for the Sandinistas, particularly assuaging regional fears of exporting revolution and increasing the country's military build-up.

During and even after Manzanilla, Secretary of State Shultz remained partial to the diplomatic ideas behind the regional agreements. The Sandinistas understood Shultz approval and hoped the diplomacy would open for space for dialogue on these issues (Zamora 1996). The Sandinistas had even met a number of commitments such as creating zones of negotiations with the Contra factions and amnesty for Contra guerrillas (Tinoco 1988). In fact, Shultz lauded the Contadora Group and Esquipulas Peace Agreements. The Secretary of State even went as far as to lobby on their behalf in the administration. "It's got a good thrust to it; it starts a process that will, with hard work, lead to democracy in Nicaragua," Shultz (1993) said to Reagan, "[a]nd to our relief and astonishment, its measures have simultaneity—so it's a victory" (960). The State Department was prepared to negotiate on the same fundamentals upon which the Contadora Group was based (Shultz 1993).

Although there were nine talks throughout the Manzanilla Accords, the negotiations failed to decrease conflict and create peace. The State Department suffered a similar fate as it did in 1981. The anti-diplomacy hardliners remained capable of marginalizing diplomatic efforts. First, instead of having career diplomats in charge, the hardliners in the CIA, Department of Defense, and National Security Council were able to convince the president to put Harry Shlaudeman, a special envoy, as the initial and premiere negotiator. Although Shlaudeman reported to the State Department, the Nicaraguans considered him a hardliner who would support the militarized part of U.S. policy (*Envío* 1990). Furthermore, the hardliners made sure to monitor Shlaudeman's effort by sending staffers from the NSC to report back to them (Shultz 1993). More importantly, although Shultz (1993) points out that he won a bureaucratic battle by getting the Manzanilla Accords off the ground, the State Department had progressively lost the president's ear and, thus, influence during the negotiation process and even more so after President Reagan won reelection in the 1984 presidential election. "He [Shultz] seldom got the presidential support to which he felt entitled," Robert W. Tucker (1993) writes in *Foreign Affairs*, "against bureaucratic aggressors in the Defense Department, the Central Intelligence Agency and the National Security Council" (143). In his 1993 memoirs, Shultz supports this assessment. He writes that hardliners such as CIA director William Casey and Secretary of Defense Caspar Weinberger did their utmost to "stop it [negotiations] in mid-flight" (417). "The very idea of a negotiation with Nicaragua unnerved them," Shultz (1993) concluded (417).

The Secretary of State could not have been more correct. Although he personally flew to Managua prior to the talks in order to demonstrate the administration's

seriousness, the hardliners had already planned against his initiatives. Constantine Menges, a White House aide, initiated a meeting with McFarlane in order to undermine any of Shultz' attempts (Krauss 1991). Casey, Kirkpatrick, and Weinberger stood alongside the others against diplomatic approaches. Weinberger completely denigrated the State Department's suggestions to hold diplomatic negotiations as an attempt to "dignify Nicaragua" (in Ibid 11). In fact, the National Security Council, according to a leaked document to the *Washington Post*, had lobbied the other Central American countries to forego signing the Contadora proposal (Rosset and Vandermeer 1986), a major effort to subvert not only diplomacy, but Central American solidarity as well. The Manzanilla talks were marginalized as a foreign policy tool before they had even begun.

Unfortunately, the Sandinistas were counting on Shultz, as well as other State Department bureaucrats more amenable to negotiations, to gain more policy influence. Top Nicaraguan governmental officials were quite aware of the bureaucratic wars that transpired in the administration. President Ortega, as well as other regional sympathetic parties such as Cuba, held a theory that by the second administration, the diplomatic camp would exert greater political influence and power over the administration than the hard-liner camp (Gutman 1988). Ortega had greatly miscalculated. Even before the Manzanilla Accords developed, hardliners had created a National Security Decision Directive that severely limited the State Department from advancing productive diplomatic steps (Shultz 1993).

The foreign policy scenario during the Reagan Administration (1981-1989) resulted in a complete marginalization of State Department-led negotiations. The continual loss of bureaucratic wars and the concomitant impotence of diplomacy



rendered the State Department impotent in influencing foreign policy. Instead of creating genuine opportunities for peace and stability, the U.S. Department of State became co-opted by the very political interests it had challenged. As a result, the State Department was reduced to merely rationalizing, justifying, and propagandizing for the more militarized policies carried out by Washington. For example, the State Department would disseminate misleading information concerning the Nicaraguan government through propaganda pamphlets such as the White Papers. Published by the State Department, the White Paper provided false information on Nicaragua, including the country's military build-up, Soviet infiltration, and political repression. A journalist for the conservative daily the *Wall Street Journal* discovered misleading information. The intelligence officer and author of the Paper, John Glassman, later conceded that there were gross "mistakes" and "misleading" information (Sklar 1988, 68). Furthermore, when the Nicaraguan government took the United States to the International Court of Justice in 1984 and won the decision in 1986, the State Department propagandized for the hard-line approach. The Secretary of State argued that the Court failed to exercise jurisdiction, though Washington's own allies and adherence to the United Nations clearly indicated differently (Zamora 1996). The ICJ case highlighted key problems with the Reagan Administration's approach to Nicaragua, such as the illegal U.S. intervention in the country's affairs, support for human rights abuses, and the mining of the Port of Corinto, a northern coastal area of the country, by the CIA.<sup>80</sup>

#### **Further Missed Opportunities: Haiti 2004**

This would hardly be the last time diplomacy failed due to bureaucratic wars. More recently, political interests within Washington marginalized a seemingly successful

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<sup>80</sup> For the ICJ decision, see *Nicaragua v. United States of America* (1984).

diplomatic approach in Haiti prior to U.S. intervention. The 2004 U.S. invasion of Haiti to remove the democratically-elected President Jean-Bertrand Aristide (1991-1996 and 2001-2004) further demonstrates the explanatory power of missed opportunities due to the marginalization of diplomacy.<sup>81</sup> A former priest who preached liberation theology, Aristide was popular with the small Caribbean Island's poor. The president and his Fanmi Lavalas party, however, became despised by the small wealthy elite. A number of Aristide's pro-poor programs such as the subsidization of rice ate into the business elite's profits (*BBC Worldwide Limited* 2002). As a result, anti-Aristide movements, many supported by Washington, flourished. The two most influential movements were the Patriotic Movement to Save the Nation, a conservative political party created by supporters of former dictator Jean-Claude Duvalier (1971-1986), and the Democratic Convergence. Both parties aimed to topple President Aristide in violent coups. The pressure exerted by these reactionary forces created severe instability for the country's relatively new and fragile democracy.<sup>82</sup>

Despite these difficulties, the U.S. ambassador to Haiti Brian Dean Curran (2000-2003) aimed to solve the political disputes diplomatically. Starting in 2001 with tit-for-tat negotiations, Curran endeavored to hammer out a deal to which both pro-Aristide and anti-Aristide forces could agree (Bogdanich and Nordberg 2006). Building upon the diplomacy of Curran, U.S. diplomat Luigi R. Einaudi further tried to stabilize the country with negotiations. Working through the OAS, Einaudi tried to pressure both sides to

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<sup>81</sup> This mini-case on Haiti serves as further evidence for the argument behind missed diplomatic opportunities.

<sup>82</sup> The reason I rely upon the term reactionary is because most of the anti-Aristide forces wanted to bring Haiti back to a military dictatorship. In fact, General Joseph Raoul Cédras would have successfully installed one after his 1991 coup if the United States had failed to pressure Haiti and return him to the presidency.

come to an agreement. In fact, through the mediation of the fifteen-member Caribbean Community (CARICOM), negotiators were able to get Aristide to accept an electoral compromise to create peace (Fetton 2005). Most importantly, Aristide agreed to a new set of legislature elections that would have given the opposition a chance at power sharing in the Haitian government (Voice of America 2004). Jamaican Prime Minister P.J. Patterson further supported the agreements. Speaking for CARICOM, he adamantly supported Aristide as the legitimate president, protested the illegal insurgency to remove a democratically-elected head of state as a dangerous precedent, and backed the agreement to save the fragile democracy (Singh 2004). Diplomacy coming from a number of angles had the potential to decrease conflict and create peace.

Top officials in Washington and a proxy non-governmental organization (NGO), however, marginalized these genuine diplomatic attempts. The first set of actors to derail diplomacy comprised of conservative top officials in the State Department and National Security Council that had a political agenda to remove any center-left leaders in Latin America. Assistant secretary of state for Western Hemisphere Affairs Otto Reich (2002) and Roger Noriega (2003-2005) made clear that the Bush Administration would no longer support the democratically-elected president.<sup>83</sup> Instead, Reich and Noriega, both of whom had various positions in the administration, aimed to halt negotiations and remove Aristide. “The crime is the Clinton administration supported him [Aristide] as long as it did,” Reich stated, marking “a change in policy” (in LeoGrande 2007, 359-360). This change in policy meant an end to diplomacy. Reich, Noriega, and other neo-

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<sup>83</sup> Otto Reich in particular has a dubious reputation in Latin America. He was involved in the Iran-Contra Affair, unethical behavior in the Office of Public Diplomacy for Latin America and the Caribbean, such as buying and intimidating journalists, and support for the 2002 illegal coup against the democratically-elected president of Venezuela Hugo Chavez (see Conkling and Goble 2004 for more information).

conservatives actively encouraged and financially supported the opposition so they no longer needed to engage in negotiations (Fatton 2005). This support for the opposition directly undermined the on-the-ground diplomatic initiatives. “What you had was the constant undermining of the credibility of the negotiators,” Einaudi lamented (in Bogdanich and Nordberg 2006). The diplomat even went as far as to “associate” the violence that occurred throughout Haiti to the United States and France (Extrait du Haiti Info 2004).

The second group to undermine diplomacy was the International Republican Institute (IRI). The IRI, which drew upon support from Washington, worked through Haitian businessman and ardent Aristide opponent Stanley Lucas. The IRI, which had already supported the illegal coup against Venezuelan president Hugo Chavez 2002, often takes a political approach to foreign policy. Instead of supporting democracy, the institution attempts to undermine center-left governments. The conservative group surrounded itself with wealthy Haitian business associates who were fervently anti-Aristide. As Curran was trying to create flexibility on the side of the Aristide opposition, the IRI, through Lucas, was sending the opposite message: Do not negotiate, for we can remove Aristide from power (Bogdanich and Nordberg 2006). In fact, interviews with opposition figures confirm that Lucas actively urged them not to negotiate with Aristide and his supporters (Ibid). Support for the opposition, therefore, was coming not only from Washington, but also the IRI. In the end, the opposition discovered that it did not have to negotiate, rendering Curran’s, Einaudi’s, and CARICOM’s attempts futile. With acts that continued to destabilize the government, including an outright rebellion against

Aristide, Washington had a pretext to invade in February of 2004: Take Aristide to safety and restore stability.

As with the Cold War case above, more powerful and influential groups marginalized on the ground diplomacy conducted in Haiti. In addition to bureaucratic players, a new phenomenon played an instrumental role: A counterfeit NGO. Although the IRI claims to be involved in building democracy, the organization, which receives funding from the U.S. government, has become so powerful that it played a significant role in undermining formal diplomatic channels. Furthermore, this case demonstrates the intra-bureaucratic fighting that happens within departments. Instead of bureaucrats from outside competing agencies such as the CIA, powerful bureaucrats from within the Department of State marginalized diplomacy. This means that U.S. diplomatic initiatives will face serious obstacles since insiders try to undermine them. The result of the case on Haiti demonstrates that, as Curran later lamented, “an amateur crowd was in charge in Washington” (in *Ibid*).

The destruction of diplomacy and removal of the Haitian president created the most horrific public bads throughout the country. Instead of restoring stability, political instability and terror took hold. Governmental institutions such as the central legislature and municipalities were completely dismantled (Annis and Ives 2011). Thousands of regime dissidents were killed or exiled (*Ibid*). A study by the University of Miami continued to follow the chaos in Haiti, finding that the removal of Aristide failed to restore any semblance of order. In the aftermath of the coup, instead of stability, “summary executions” were commonplace by police. Furthermore, impoverished neighborhoods demanding democracy were often viewed as “enemy territory” in which

people “must kill or be killed” (Griffin 2004, i). As a result, as the case studies demonstrate, diplomacy serves as an instrumental variable for international politics. Although the United States can provide public goods, the public bads can have disastrous effects for the countries involved.

## CHAPTER 7

### POST-COLD WAR CASE STUDY: U.S. FINANCIAL INTERESTS AND FOREIGN POLICY

#### Introduction

The last few decades have witnessed the growth of free trade initiatives between Latin American countries and the United States. These initiatives have included the North Atlantic Free Trade Agreement (NAFTA), the Central America Free Trade Agreement (CAFTA-DR), the Peru Trade Promotion Agreement, Free Trade Agreements (FTA) with Chile and Colombia, and a number of other pending bilateral initiatives. Further support for trade agreements came in the form of the Trade Promotion Authority, often known as “Fast Track,” which the U.S. Congress approved in 2002. Fast Track solidifies trade initiatives by precluding congressional committee changes to the trade bills that go through the House and Senate. The post-Cold War world has ultimately been favorable for trade between the United States and Latin America.

Creating and sustaining economic openness is a key characteristic for hegemonic stability. As mentioned earlier, economists, political scientists, and policy makers emphasize a pivotal economic role for the hegemonic power. The hegemon sustains an open economic system based on liberal capitalist principals when all other powers fail to take on the responsibility. The hegemon that accepts this role, in turn, keeps the flow of capital moving, inhibits the erection of protective trade barriers, and serves as a lender of last resort. One of the principle reasons the Great Depression (1929-1939) lasted so long, Kindleberger (1973) stresses, stemmed from the lack of a hegemon that would take on this herculean task. Great Britain, the world hegemon at the turn of the twentieth century,

failed to continue its vital role and the United States neglected its new responsibility. In the aftermath of World War II, however, the United States, through the Bretton Woods system (1944-1971), accepted this leadership role and led most of the world in a liberal capitalist direction.<sup>84</sup> As a result, liberal capitalist stability ensued.

Although the Bretton Woods system no longer exists, the United States still continues its role as the hegemon that sustains a liberal capitalist system. Through the Office of the United States Trade Representative and the Department of State, Washington continues to support an open system both regionally and globally. In addition to the above mentioned trade initiatives, the United States sponsors free trade far beyond the Americas. Washington proposes, negotiates, and signs trade agreements with countries as diverse as South Korea, Mongolia, and Estonia. What is more, the United States remains the principal financial supporter of the World Trade Organization (WTO), the international institution designed to sustain and regulate the world open liberal economy. The United States donates up to 12% of the WTO budget. Only Germany, Great Britain, and France come close, giving 8.8%, 4.8% and 4.4%, respectively.<sup>85</sup>

The United States is instrumental for maintaining a relatively open international economic system. Few states have the resources and influence to financially sustain such a system and provide the leadership to coordinate and convince members to participate. Moreover, the United States helps solve the inevitable collective action problem that occurs internationally. In addition to having scant resources, many states will act as free riders in the international system. That is, if the public goods of an international liberal

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<sup>84</sup> Due to space constraints, this paper does not review the Bretton Woods system. For an in-depth analysis, see Finkman (2005) and Mikesell (1994).

<sup>85</sup> See the WTO site for more detail: [http://www.wto.org/english/thewto\\_e/secre\\_e/contrib\\_e.htm](http://www.wto.org/english/thewto_e/secre_e/contrib_e.htm).



system cannot be denied to its members, states will forgo investing into the maintenance of the system since they are able to reap benefits without incurring the costs. Washington helps avoid this conundrum. It is also important to note that increased trade has led to tangible benefits. A small country such as Nicaragua, for instance, has significantly increased its exportation to the large U.S. market since the implementation of the (CAFTA-DR) in 2006, a unilateral trade deal that decreases trade barriers between the two countries.<sup>86</sup> Exports to the United States, without including textiles-dominated free zones that have developed throughout the country, have experienced an annual increase of 10.8% since 2006, an increase many Nicaraguan economists attribute to CAFTA-DR (Díaz Rivas 2011).

Despite the benefits of liberal trade with the United States, aspects of the agreements have come under attack. Criticism of trade agreements between the United States and Latin America has become widespread in academic, policy, and activist literature. Criticism has focused on the role of U.S. farm subsidies, IMF structural readjustment policies, environmental impacts, and other trade-related issues.<sup>87</sup> The role of capital flows and the repatriation of funds, however, has historically attracted less attention in academic and policy research. “Unlike many topics in international economics,” Christopher Neeley (1999) points out, “capital controls—taxes or restrictions on international transactions like stocks or bonds—have received cursory treatment in textbooks and scant attention from researchers” (1). International economic

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<sup>86</sup> It is relevant to note that CAFTA-DR involves trade negotiations between the United States and member countries, not Central American countries between themselves.

<sup>87</sup> The wide range of literature is beyond the scope of this paper. However, for criticisms on farm subsidies, see Food and Water Watch (2007); for IMF policies, see Ripley (2010) and Blustein (2005); for environmental impacts in Latin America, see Roberts and Thanos (2003).

crises in Mexico (1994), Asia (1997), Argentina (2001) and other areas of the world, however, have gradually shifted focus on the influential role of volatile international capital flows and challenged the conventional wisdom regarding the benefits of unregulated capital transactions. The successful use of capital controls by Malaysia, Chile, Colombia, and other emerging economies has forced economists and policy makers to rethink the extent to which countries should liberalize their economies. Capital controls, economic policies that counter complete financial liberalization and regulate the domestic and international flow of international financial capital, may be beneficial policy tools that allow countries to avoid and recover from domestic and international economic crises.

Although there is never a consensus on the benefits of economic policy, an ideologically diverse group of world economists, scholars, and policy makers have now recognized not only the utility of capital controls, but also the inherent economic risk involved in uncontrolled financial liberalization. In addition to globalization skeptics such as Joseph Stiglitz (2002) Paul Krugman (1998), and Dani Rodrik (2007),<sup>88</sup> Jagdish N. Bhagwati (1998; 2004), the prominent advocate of free trade and globalization, concedes that financial liberalization can be detrimental for a developing country. In his book *In Defense of Globalization* (2004), Bhagwati observes a pivotal role for capital controls as a policy tool, particularly in light of their use in during the Asian economic crisis.

The literature on capital controls, however, has focused on the extent to which they have effectively helped countries avert or recover from economic crises. In order to

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<sup>88</sup> When I use the term skeptics, I do not intend to convey that they are against globalization. These prominent economists, however, have challenged many of the conventional research concerning the benefits of open trade and globalization.

measure this efficacy, the economic research has been primarily dominated by the use of regression analysis and economic models (Kaminsky and Schmukler 2001; Kaplan and Rodrik 2001; Ostry et al. 2010; Coehlo and Gallagher 2010; Magud, Reinhart, and Rogoff 2011). Using the IMF's own International Financial Statistics, for instance, Kaplan and Rodrik (2001) employ a time-shifted regression analysis to demonstrate the utility of Malaysia's use of capital controls in 1998. According to the study, capital controls allowed the country to have an independent monetary policy and, in turn, address the Asian financial crisis more effectively than those countries that did not opt for capital restrictions.

Although measuring the efficacy of capital controls through models and regression analysis is extremely valuable, this approach fails to take into account the political and economic agendas behind the decision-making processes to impose capital controls in the first place. Powerful U.S. and international economic interests seek to influence trade deals. These interests are more concerned with "investor rights," rights that protect U.S. investments overseas. One prominent right investors demand is the right to move financial capital freely throughout our globalized world. This scenario poses a particular set of problems that political scientists can address better than economists because the issues are of a political nature; for they relate to the political agendas and economic interests involved. In fact, the political questions are just as, if not more important than those advanced by economic research. Although economic research helps suggest policy options, the political realm ultimately decides which policies are actually taken. Robert Gilpin astutely recognizes the pivotal importance of politics in international political economy (IPE). "[E]conomic theories alone are not sufficient for

an understanding of developments and their significance for economic and political affairs,” Gilpin (2001) asserts, “[o]ne must also draw upon ideas and insights from history, political science, and other social sciences” (12).

Considering the political nature of U.S. foreign policy, one central question emerges: Why does the United States, against the advice of economists, prohibit the use of capital controls and force complete financial liberalization? This study finds that although countries experience economic benefits from the opening of trade initiatives, powerful U.S. economic interests that influence Washington, particularly the Department of State, the principal governmental agency managing and negotiating trade agreements, decreases those benefits. In the specific case of capital controls, influential U.S. business sectors with financial interests abroad support and lobby for unfettered capital controls, undermining the potential public goods international trade can produce. The policy results, in turn, create public bads for developing countries. These public bads are defined as inflexible and limited policy options to address vital economic and social issues. This inflexibility fails to allow countries from taking the adequate policy tools to address the economic challenges in a more globalized world.

It is important to note first that there is nothing novel about observing the relations between government and economic interest groups. What is intriguing about this study is how trade deals the United States sponsors and negotiates challenges the results of a vast body of economic research. Economists and policy makers recognize the need for capital controls. This support for capital controls extends far beyond the United States. Academics and policy makers in countries as diverse as Colombia and Malaysia recognize the significance with controlling both capital inflows and outflows. Therefore,

the subject of capital controls and parochial economic interests open debate to many fundamental issues related to foreign relations. If the State Department, the foreign relations arm of the United States, is able to provide public goods, these goods can be distorted by U.S. private economic interests. Therefore, there is a need to rethink the influence of such interests when the U.S. government develops trade regimes and passes them into law.

Moreover, this study is important because trade agreements are legally binding. Powerful corporations can take signatory countries to court if they fail to comply with the legal stipulations of trade initiatives, regardless of whether economists argue that such rules are economically beneficial or not. Currently, Pac Rim Cayman LLC, a mining corporation with legal representation in Reno, Nevada, is suing the government of El Salvador for inequitable and unfair investment treatment that is granted under the CAFTA accord. The case is in process in the International Centre for Settlement of Investment Dispute, the supranational investment court that functions under the aegis of the World Bank.<sup>89</sup> In fact, the case has been costly for the El Salvador, a country that needs funding for a wide-range of social and economic problems. Estimates suggest that the government has lost roughly \$4.3 million (*Just Investment* 2012). As a result of the legally binding aspect of trade initiatives and the concomitant potential costs, we must examine not only the specific policies the agreements contain, but also the powerful interests that support and lobby for the trade provisions in the first place.

This chapter is also crucial for this dissertation because it addresses two fundamental questions related to hegemonic stability: To what extent is economic

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<sup>89</sup> For more information on the Centre, the dispute settlement process and the Pac Rim Cayman LLC v. Republic of El Salvador case, see the Centre's website (2011): <http://icsid.worldbank.org/ICSID/Index.jsp>.

openness a public good and at what point does openness become a public bad by creating and or exacerbating economic crises? In this post-Cold War study, economics takes a prominent role. Focusing specifically on capital controls, this study finds that economic openness fails to be beneficial when openness, solidified in trade deals, imposes inflexible policy requirements that do not allow countries to explore alternate policy options that may require restrictions on openness. Although there are direct benefits to free trade agreements such as NAFTA and CAFTA, specifically the inflow of foreign direct investment (FDI) and increased access to the U.S. consumer market, this research finds that economic openness fails to be beneficial when openness, solidified in trade deals, imposes an inflexibility that does not allow countries to explore alternate policy options that may require restrictions on openness

In recent history, the Office of the United States Trade Representative (USTR) has accrued more power in trade relations. Since the Trade Expansion Act gave birth to a special trade representative in 1962, a number of legislative bills have afforded the agency with increasing authority over negotiating trade initiatives. The 1979 Reorganization Plan No. 3, the most significant act expanding the trade representative's powers, made the USTR not only the primer authority over all trade negotiations, but also the main presidential advisor over the subject. Later bills only increased the bureaucratic influence of the USTR. The 1994 Uruguay Round Agreements Act and the 2000 Trade and Development Act gave the agency the principal authority to negotiate with the WTO and created the posts for an Assistant Trade Representative for African Affairs and Agricultural Negotiator, respectively.<sup>90</sup>

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<sup>90</sup> For more information on the USTR, see its website: <http://www.ustr.gov/>.

Although the USTR plays an instrumental role, the State Department is far more influential in trade negotiations. First, the sheer size and scope of the State Department overpowers that of the USTR. The USTR relies on only 200 plus employees with a \$44 million annual budget while the State Department has over \$14 billion at its disposal annually (U.S. Department of State 2010). The State Department, through a network of embassies and other agencies, is also the principal representative overseas in charge of managing and negotiating trade treaties with foreign countries. This explains why the State Department not only wields more influence in trade negotiations, but also attracts more lobbyists. Both U.S. corporations and progressive groups invest most of their resources in targeting the large bureaucratic apparatus of the State Department with the hope that their concerns and interests will influence particular policy initiatives. In fact, the State Department has a long history assisting U.S. capitalism abroad. The very first American Bondholders Council was created with the assistance of the State Department in the 1920s (Eichengreen 2004). In the 1930s, Allen W. Dulles (1932) pushed to have the State Department the principal supporter of U.S. foreign bondholders and other investment. He viewed the State Department, with its many agencies, as the natural protector of U.S. investors. It is no wonder why both supporters and detractors of capital controls currently address the Secretary of State before the secretaries of other departments. The State Department's instrumental role helps explain why U.S. financial and corporate interests seek its assistance globally.

### **What are Capital Flows and Controls?**

Capital controls are various types of restriction on the inflows and outflows of both international and domestic capital that enter and exit the home economy. Capital

controls are a contentious subject because they counter the conventional economic wisdom that financial liberalization, defined as the removal of all barriers to the flow of financial capital, is the most efficient way to invest and allocate international capital (see McKinnon 1973 and Shaw 1973 for their influential research). The flow of capital, opponents of capital controls aver, must be based predominantly on market forces and not governmental regulation. Investors and depositors should be allowed to repatriate profits out of the home economy freely. Likewise, lending and borrowing institutions should decide their own policies such as interest rates. Countries with sound and healthy financial systems and institutions will be rewarded whereas those without will be punished. Any regulation against financial liberalization, therefore, creates distortions and inefficiency not only for investors, but also developing countries. For example, implementing capital controls only delays much needed financial reform and transparency in developing countries' economies. Capital controls then have the potential to foster local corruption and undermine already weak financial institutions (Johnson and Todd 2003). Capital controls also have a negative effect over the economic health of the home country. Opponents observe that the trade of assets is necessary in times of crisis in order to avoid decreasing national consumption. After the 1980 earthquake ruined parts of southern Italy, for instance, the country borrowed abroad, creating a current account surplus, to sustain its level of consumption and help rebuild (Neeley 1999). Countries also borrow (and countries lend) to invest in the production of goods and services. Obstructing this process can have dire results for the population of the country that imposes these restrictions.



Moreover, implementing capital controls often fail to have long-term effects. Although the policies may control the flow of capital in the short-term, opponents observe, finance experts easily learn how to circumvent the government restrictions. Gallego, Hernández, and Schmidt-Hebbel (1999) emphasize this point in their research on Chile. Although a number of policy makers and economists have lauded Chile's use of capital controls, particularly the unremunerated reserve requirement (URR), Gallego, Hernández, and Schmidt-Hebbel (1999) have found that the benefits of capital controls are short lived, "of a temporary nature" (23). "The speed at which the URR loses its effectiveness," their models conclude, indicates that economic fundamentals will start deteriorating shortly after the URR has been introduced if the central bank fails in doing its job" (23).

Economists identify two types of capital flows that policy makers try to regulate: Real and financial assets (Neely 1999). Real assets refer to the international buying and selling of tangible items such as factories, equipment, and land. This capital is known as foreign direct investment (FDI). Financial assets, on the other hand, entail non-tangible assets such as securities, equity, bank deposits, loans, stocks and bonds. A country's capital account records both financial and real assets. Along with the current account, which records other transactions such as import and export purchases, the capital account makes up a country's balance of payments (BOP). The BOP records all the transactions of values between the residents of one country and the rest of the world.

Economists have considered FDI a more valuable and stable form of capital investment. Investing in tangible assets, FDI facilitates technological transfers, invests in job creation, and remains in the host country longer than portfolio investment. What is

more, investors of real assets are not able to pull their money out of a domestic economy so easily. Essentially, most FDI is long-term investment. The positive externalities of FDI, however, should not obscure the potential problems investment in real assets can cause. Scholars have noted that FDI can have dire effects in developing countries, including environmental degradation, dumping of products, and unfair competitive advantages. For example, Ratt (1992) demonstrates that large FDI inflows from the United States into Mexico during the regime of Porfirio Díaz (1884-1911) significantly contributed to the decrease of Mexican landholding. Members of the peasantry, middleclass, and the business elite could not compete with the massive purchasing power of U.S. transnational corporations. As a result, those who lost their land, businesses, and overall competitive edge to U.S. competition within Mexico contributed to the impetus behind the Mexican Revolution that began in 1911. Nonetheless, FDI has been a desired form of investment. With adequate domestic regulation, FDI has the potential to create domestic benefits in the form of job creation, economic growth, and technological transfer. “Countries favor FDI, among other reasons,” international economists Ayan Kose and Eswar Prasad (2012) point out, “because it usually involves flows that are relatively long term and not subject to rapid reversals associated with changes in investor sentiment.”

Financial assets, however, are much more volatile. Most of these assets are in the form of portfolio investment, referring predominantly to money markets, stocks, and or bonds. A significant portion is also invested as bank deposits by both international and domestic clients. Investors can remove this capital much easier than those who have invested in FDI. In fact, long-term portfolio investment can also leave a country rapidly

by merely paying a small fee. International investors are not the only ones who can withdraw their money quickly. Nationals can also remove investments. If residents view a political crisis, many are inclined to withdraw their money from local accounts and deposit their assets abroad into banks considered more stable and less risky. Often called “speculative attacks” in economic literature, a country can experience a significant decrease in international and domestic monetary reserves, precipitating a financial crisis that not only puts pressures on the home economy’s currency exchange rate, but also spreads throughout the entire country. The Argentine government faced this problem when depositors tried to withdraw up to 80% of their bank assets during the economic crisis that destroyed the country in 2001 (see Ripley 2010b for an in-depth discussion).

A serious economic crisis such as the one that hit Argentina in 2001 is not a necessary condition for investors and account holders to withdraw their money. Emerging economies often experience capital flight. Capital flight is a common and pernicious economic phenomenon for developing countries. It entails the massive outflow of portfolio capital when investors perceive the slightest uncertainty regarding a country’s economic and political stability (Gaggero, Casparrino, and Libman 2007). Economists in developing countries such as Argentina are particularly sensitive to the massive outflow of capital by both legal and illegal means and by both domestic and foreign capital (Ibid).<sup>91</sup> Capital flight is especially prevalent in least developed countries (LDC) such as Honduras, Nicaragua, and Paraguay. LDCs are considered risky and international investors have little knowledge about them. Events as commonplace and

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<sup>91</sup> Scholars have defined capital flight in a number of ways. For example, some see the flight as legal whereas others stress the illegal aspect of flight. In developing countries, economists often highlight a general understanding of capital flight since the flight itself is so pernicious. See Gaggero, Casparrino, and Libman (2007) for the case of Argentina.

unavoidable as presidential elections and natural disasters can set off “credit panic.” Even if only a fraction of the investors withdraws their capital, others begin to follow in what has become known as the “herd mentality,” causing massive capital flight and financial crises. For example, after Hurricane Mitch, Costa Rica had to significantly increase interest rates to stem the tide of capital removal. Investors feared they would lose their investments due to the natural disaster (*Costa Rica* 1999). Increasing interest rates offered incentives for international investors even if they led to slowing down economic growth, the exact opposite the country wanted in the aftermath of a natural disaster. Other impoverished countries such as Nicaragua experience financial capital flight for events as politically routine as elections. Elections often induce panic in investors because the change in not only a country’s political landscape but currency exchange rates and financial regulation can negatively affect investors’ interests. “Financial markets tend to behave with increasing nervousness,” political economist Javier Santiso (2003) points out, “because of the uncertain political outcomes involved in election years” (148). Elections can produce “changeability of currency or bond traders’ expectations,” Santiso concludes. Latin American countries have also experience severe capital due to sovereign debt increases (Pastor 1990).

Within the economic literature, researchers have identified five fears that cause policy makers to consider implementing capital controls. Magud and Reinhart (2006) observe the first four. The first involves currency appreciation. With the inflow of financial capital, the nation’s currency appreciates, rendering its exports less competitive on the international market. I will add that this fear is related to Dutch Disease. When the Netherlands, after whom Dutch disease is named, discovered large natural gas

reserves in the North Sea in 1959, the economy experienced a significant production decrease in its manufacturing sector. The country's currency played a pivotal role. A currency's value, as with that of any commodity on the open market, is susceptible to appreciations and depreciations depending on its international demand. When a country exports a commodity in high demand, such as oil or natural gas, the country's currency inevitably becomes in demand. This often leads to an overly appreciated currency, causing the country's other internationally traded products such as textiles and manufactured goods to be overpriced and, thus, not competitive. As a result, with the discovery of natural gas, the value of the Netherland's currency increased to the extent to which it rendered exports uncompetitive on the world market, undermining the manufacturing sector. The influx of financial capital can have similar effects on a nation's currency, causing significant appreciations. An overvalued currency can also lead to higher inflation, something that many large oil producers such as Venezuela and Nigeria have historically suffered. In fact, newly demanded commodities such as lithium in the case of Bolivia's current efforts to develop its vast reserves must face the inevitable challenge of Dutch Disease (see Ripley and Roe 2012).

Second, there is a fear of "hot money." Hot money involves large quantities of portfolio capital that can enter and leave the country quickly. Magud and Reinhart (2006) point out that policy makers harbor a distrust of this type of financial investment due to the problems associated with its "sudden withdrawal" (647). The fear behind this type of investment is that it is susceptible to the herd mentality at any sign of trouble. Herd mentality is best defined as the inclination of investors to buy and sell financial assets that other investors are buying and selling at a given time. As a result of this herd

buying and selling, significant amounts of capital can enter and then leave a country quickly, causing significant imbalances and distortions in the country's domestic finances.

The third fear entails large monetary inflows that are not necessarily categorized as hot money. Large inflows can create distortions in the country's finances even though investors are in long term commitments. They can also create "bubbles" in the economy since with more investment both domestic and international investment can take risks and artificially inflate the demand and prices of important commodities such as housing and other real estate assets. I will also add that investors are merely looking for higher profits on the international market, many of which can be found in the bond rates in developing countries. With interest rates in industrial economies low, international capital has entered in the financial markets of emerging economies in order to reap huge profits. Although there are intrinsic advantages to attracting international capital, such as using the funds for internal investment, many policy makers fear that a huge influx of money could create domestic problems, particularly asset bubbles in certain economic areas.

The fourth fear is the loss of monetary independence. This fear is related to an economic phenomenon commonly referred to as the unholy trinity or tridilemma. This dilemma stresses that a country cannot exercise a fixed exchange rate, monetary independence, and a free flow of capital simultaneously. This fear relates to the fixed exchange rate. Although policy makers may not want a complete fixed rate, they may opt for one that is adjusted to a basket of currencies. Essentially, this means that although the exchange rate is not inflexibly fixed to one currency, as the Argentine peso was to the

dollar (see Ripley 2012b) policy makers may use a basket of currencies to control its fluctuation. Eliminating capital controls prohibits any exchange rate controls.

Finally there is a fifth fear economists often fail to recognize: The loss of political autonomy. International investors often exert control over populations in developing countries during election cycles. Although candidates and parties, usually associated with the political left, may offer programs and policies that benefit the local domestic populations, investors often threaten populations for voting for candidates not in their interests. Prior to the elections of Argentine presidents Néstor Carlos Kirchner (2003-2007) and Christina Fernández de Kirchner (2007-present), foreign capital warned of electing known leftists. Nonetheless, both administrations were successful at implementing capital controls and winning the Casa Rosada three consecutive times. In fact, the economy has developed considerably despite fears (see Weisbrot et al. 2011)

Capital controls have many objectives, depending on the specific goal policy makers may be targeting. Although all the possible policy goals are too numerous to detail here, there are a number of common objects emerging countries have targeted. The first pressing issue involves curbing the inflow and outflow of hot money. As mentioned above, hot money can destabilize a country's otherwise growing economy. As a result, policy makers have implemented capital controls in order to control this international phenomenon. Moreover, countries have used controls to encourage long term investment. This capital control objective aims to undermine the relatively recent trend in short-term investment flows. Instead of allowing investment and profits to be readily taken out of the home country once short-term debt profits accrue, policy makers of created policies to financially penalize both domestic and international investors who

aimed to withdraw money from the economy in short period of time. The concept of “monetary autonomy” has also been related to capital control policies. Imposing limits on controls forces economies to relinquish a useful tool to address a wide range of issues such as international economic crises, inflation control, optimal interest rates, and exchange rate pressures. The inflow and outflow of financial capital, for instance, can cause distortions in a nation’s exchange rate by radically shifting the demand for the national currency. The free flow of capital renders policy makers impotent in controlling and adjusting their own exchange rates.

As mentioned above, an often unexplored reason for capital controls entails autonomy in not only monetary policy, but also political policy. Many international investors withdraw capital when policy makers implement progressive policies that help the indigent in the particular country. For example, land reform and increasing the royalties from natural resources may be beneficial for the poor masses that inhabit many developing countries; however, investors, interested more of raw profits than the long-term stability and development for the native population. Capital controls, however, can be judiciously employed in order to sustain needed investment. Emerging economies, however, have had success with capital controls. Malaysia affectively employed capital controls in order to slow down and control short-term capital inflows. With low U.S. interest rates in the 1990s, Malaysia, an economy that was already attracting international capital, attracted short-investment to take advantage of its relatively higher interest rates. Short-term flows skyrocketed from 1.2% to 8.9% of GDP in a short three years between 1990 and 1993 (Koenig 1996; Kawai and Takagi 2003; Cordero and Montecino 2010).<sup>92</sup>

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<sup>92</sup> For an in-depth study on the economies and capital control policies of four ASEAN countries, see Koenig (1996).



In order to curtail these inflows and exercise monetary autonomy, Malaysian policy makers implemented a number of capital controls, including the following: Limits on the speculation of the nation's currency and the lending for portfolio investment by the national banks; a prohibition on securities with less than a year to maturity; and unremunerated reserve requirements, relatively common control that decreases foreign-held bank interest rates through a requirement that a portion of these deposits would not earn interest (Cordero and Montecino 2010).

Of course, there is always debate on economic policy. There should be debate on the extent to which capital controls did contribute to assisting the countries mentioned above with managing the various economic issues. However, with such an ideologically broad spectrum of economists and policy makers advancing the argument for some type of capital control flexibility, why are all trade initiatives refuse such flexibility? Why does the anti-capital control group, which is smaller in number, continually have their ideas crystallized in trade agreements? "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood," John Maynard Keynes famously stated, "[i]ndeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist." However, that is only true if economic ideas have powerful interests behind them. Opposed to measuring the strengths and weaknesses of different policies and advancing the optimal policy options, the U.S. government, particularly the State Department, is lobbied by competing interests and ideas. The contribution of this research is focusing on the effect such competition has on developing countries. Powerful U.S. economic influence has led

to a pathway of economic instability and crisis for developing countries. Challenging the prevailing economic literature on capital controls and a host of other economic policies, these interest groups have vehemently lobbied the U.S. government to lock emerging countries into legally binding trade deals. Although their efforts have focused on the Treasury and State Departments, economic interest groups have also spread their influence to other governmental entities such as congressional committees.

It is important to stress that scholars have observed that financial liberalization has occurred due to its economic value. Removing capital controls has developed into the logical next step of globalization. Lobbying efforts by powerful interest groups are not the culprit, but sound policy. Ravi Abdelal of Harvard Business School advances such an argument. In his 2007 book *Capital Rules: The Construction of Global Finance*, Abdelal argues that in lieu of U.S. hegemony and financial lobbying, Western Europe, particularly the French, advanced and normalized the idea of the free flow of capital. The Organisation for Economic Co-operation and Development (OECD), an international groups spearheaded by European countries in the aftermath of World War II, not Washington, which, according to Adelal (2007), was “irrelevant” and “indifferent,” pushed for more global liberalization (3).

### **Financial Interests and Foreign Policy**

The evidence here, however, arrives to a set of different central questions: If capital controls are not sound policy, why do countries opt to rely on them? Why do economists find them, at least under certain conditions, favorable? Finally, how do influential groups overpower prestigious economists to create a pathway to instability? To adequately address these questions, one must understand the brief history of capital

controls. In the past, capital controls were not a source of contention. Relying upon the control of the flow of financial capital was a policy ingrained in the Bretton Woods system. The architects of the system were preoccupied with the negative effects of capital mobility (Cox and Skidmore-Hess 1999). The role of capital controls and a modicum amount of market intervention worked alongside free market capitalism. This delicate balance between intervention and free market policies, many policy makers believed, would help maintain an acceptable level of economic growth and, where free markets failed, government intervention. John Ruggie (1982) famously called this balance between the free market and intervention “embedded liberalism.” This compromise allowed markets to enjoy a level of legitimacy while government intervention would compensate for its failures through social welfare programs such as unemployment benefits and the G.I. Bill. Drawing upon a Keynesian economic approach, intervention would also assist through spending to create economic growth. “The failure to strike such a compromise earlier had undermined international cooperation in trade and macroeconomic policy during the 1920s and 1930s,” Abdelal and Ruggie (2009) point out, “just as it had caused the collapse of the first era of globalization, circa 1870 to 1914” (151). For Ruggie and other scholars, capital controls played an instrumental role. “Governments would be permitted—indeed,” Ruggie (1998) stresses, “were expected—to maintain capital controls” (74).

Over time, however, interests related to international capital began lobbying for a removal of governmental economic regulation including capital controls. The first two countries to experience lobbying and, thus, engage in and then spread deregulation were the United States and Great Britain. During the 1950s, London and Wall Street bankers

tried desperately to lobby against and undermine the financial regulation and capital controls in their respective countries (Sanford 2009). Efforts by financial interests were often rejected by governments, sustaining the fundamentals of the embedded liberal compromise. According to some accounts, President John F. Kennedy even called the idea of lifting capital controls “absurd” (Ibid 15). By the 1960s and 1970s, however, the objective to create the emergence of a deregulated liberal market unfettered by capital controls first in London and then in New York met with growing success (Helleiner 1994). Although governments were supportive of the ideas behind the Bretton Woods System, financial lobbyists held powerful sway over policy makers. “But elite financiers had access to top monetary officials, who often were former colleagues,” observes Sanford M. Jacoby (2009), of UCLA Anderson School of Management, “and throughout the 1960s they lobbied steadily for financial deregulation” (17). By 1974, the decision of U.S. policy makers to eliminate previous governmental capital controls allowed New York to become, in the words of Helleiner (1994), “a fully liberal international financial centre” (301). This meant a significant decrease in regulated the movement financial inflows entering and leaving the United States.

After success within their own countries, influential financial groups began to turn outward. These groups did not want to remain only within their respective countries. The growth of financial capital and the concomitant development and expansion of lobbying groups exerted pressure on the U.S. government to expand deregulatory financial systems. For example, the money involved in financial capital—public and private debt securities, equities, bank assets, etc.—grew from \$12 trillion in 1980 to \$140 trillion by 2005 (Sanford 2009). As a result, financial lobbying groups gained more

power. Affiliations such as the Business Roundtable, a business interest group formed in 1972 by some of the most powerful corporate CEOs, began exerting strong pressures on U.S. policy makers. The Roundtable, economists Sam Gindin and Leo Panitch (2012) point out, “launched the most extensive organizational campaign of private capital since the formation of the Committee on Economic Development in the early 1940s” (164). One of the reasons for the Roundtable’s creation was to counter and eliminate business and financial regulations (Gindin and Panitch 2012). In fact, the Roundtable, along with other business groups, was instrumental in helping Washington pass the 1974 Trade Act and other investor-friendly policies (Ibid). The 1974 initiative began the momentum behind eliminating capital controls. “Internationalist interests that had been frustrated by capital controls a decade earlier,” Ronald Cox and Daniel Skidmore-Hess (1999) write regarding the 1974 act, “now were able to effect changes in state structure and function designed to promote a more aggressive export orientation” (157). The 1974 Trade Act essentially gave the United States the right to apply unilateral trade sanctions against nations for applying policies that counter U.S. interests in foreign trade (Amat et al. 2003).

Moreover, the rise of conservative think tanks, often funded by financial capital, flourished throughout this time period and further exerted pressure on government. Throughout the 1970s and 1980s, capital-friendly think tanks such as the Heritage Foundation and the American Enterprise Institute used the “power of ideas” to counter any type of financial regulation (Sanford 2009, 18). The Heritage Foundation even developed an “Investment Freedom” report that reduces freedom “points” for financial

regulations such as capital controls.<sup>93</sup> Think tanks, therefore, not only exerted more pressure on government, but also legitimized the idea of expanding deregulation and eliminating capital controls. Additionally, financial capital would later become a primary contributor to political campaigns to support deregulation internationally and domestically, donated hundreds of millions of dollars to congressional and presidential campaigns (Stanford 2009).

Although the period of President Ronald Reagan (1981-1989) and Prime Minister Margaret Thatcher (1979-1990) has become synonymous with global liberalization and neo-liberalism, the movement to completely remove capital controls through trade deals became solidified during the presidency of William Clinton (1993-2001). With the passage of the North Atlantic Free Trade Agreement (NAFTA) (1994), a sweeping trade agreement between the United States, Mexico, and Canada, the regulatory system accepted in the Bretton Woods system dwindled away. Scholars and policy makers often focus on the affect NAFTA has exerted on tariffs and the import-export balance of member countries. However, NAFTA actually initiated the trend on eliminating capital controls through unilateral and regional trade agreements. Article 1109 stipulates the repatriation of funds. That is, NAFTA member countries must freely transfer any foreign capital—loans, profits, and investment—across its borders without regulation. This is in essence the elimination of capital controls as a policy tool. Essentially, “investor rights” took precedence over a country’s own policy initiatives. Instead of actually allowing sovereign governments the right to exercise their choice of policy tools, NAFTA, in the words of economist Robert A. Blecker (2005), “promote[d] the agendas of their big

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<sup>93</sup> See The Heritage Foundation’s website on investment freedom: <http://www.heritage.org/index/investment-freedom>.

business and financial interests” (6). This has led to “the veto power of financial capital over national economic policies” (Felix 2001, 1). In fact, according to IMF Managing Director Michel Camdessus, the Mexican 1994-1995 economic bailout stipulated that the government could not revert to capital controls (Ibid). One of the primary objectives of assisting the country with a multi-million-dollar credit during the country’s economic meltdown was to avoid not only Mexico from exercising policy decisions that countered the international trend in international financial deregulation, but other countries from following Mexico’s example as well (Ibid).<sup>94</sup>

More recently, financial groups have continued to lobby Washington, particularly the U.S. Department of State, for investor rights and free trade initiatives that eliminate the use of capital controls. The groups lobbying against capital controls entail a wide range of financial interests. These interests are partly represented on a 2011 letter sent to Secretary of State Hillary Clinton and other governmental officials who exercise considerable influence over U.S. trade and foreign policies. The financial interest groups included powerful corporation and business groups such as United States Council for International Business (USCIB), Organization for International Investment (OFII), The Financial Services Roundtable, among many others. The letter claimed that the use of capital controls and restrictions on balance of payments would “have major adverse commercial effects on U.S. companies and American jobs, allowing other countries to restrict not only the flow of capital, but also goods and services imports.”<sup>95</sup> Despite the legitimate concerns the letter raises, U.S. investors abroad are return seekers; that is, they are interested in investing abroad for profit, at times as quickly as possible. Any

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<sup>94</sup> For more on the Mexican crisis, see Felix (2001).

<sup>95</sup> For the full letter, see Endean (2011).

impediment to the free flow of capital and profits counters business interests. U.S. financial interests, for instance, were able to successfully lobby for the repatriation of funds, which entails the ability to freely remove all profit and capital without controls, in NAFTA, the free trade agreement between Mexico, Canada, and the United States. No wonder the U.S. Chamber of Commerce labels capital controls as “unfriendly” to U.S. financial interests on its website.<sup>96</sup>

The objective of the letter was to counter the growing demand to allow developing countries to rely on capital controls as an economic tool to create and maintain financial stability and growth. Earlier in 2011, over 257 academics, policy makers, activists, and even politicians sent a letter to Hillary Clinton, the Secretary of State, and other U.S. officials inveighing against free trade liberalization agreements that eliminated the use of capital controls. According to the letter, research has demonstrated that such controls can be useful to control asset bubbles and maintain monetary independence. “Given the severity of the global financial crisis and its aftermath,” the letter stated, “nations will need all the possible tools at their disposal to prevent and mitigate financial crises.”<sup>97</sup> The counter movement launched by financial business groups demonstrates not only the struggle to define and implement U.S. economic foreign policy, but also that policies concerning capital controls are of great interest to financial lobbying groups. As a result, the idea that trade liberalization and the elimination of capital controls exist merely because they represent the normal and optimal policy strategies would be naïve. Policy is shaped by those who have the influence.

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<sup>96</sup> For the U.S. Chamber of Commerce, see <http://www.uschamber.com/international/asia/southeastasia/thailand>

<sup>97</sup> For the full letter, see Hausmann (2011).



Letter writing is far from the only initiative upon which financial capital has relied to eliminate capital controls and lobby for their interests. Understanding the current pressure to accept capital controls, international capital has begun a counter campaign. In addition to countering the influence of economists, lobbying has been encouraged on Capitol Hill. In an article titled “Asset managers must lobby Washington,” John Dizard (2013) has passionately argued for individuals involved in financial capital to pressure the U.S. government from relaxing its strict stipulations against capital controls. His paramount worry is the IMF’s endorsement of capital controls. Dizard (2013) fears, quite hyperbolically, “‘Global investing’ will have become something for the economic historians.” Business groups have continued in earnest. Internationally-oriented financial business groups line up to lobby Washington, particularly the State Department. The U.S. Chamber of Commerce, the United States Council for International Business, among other influential groups that have staunchly lobbied for unfettered capital flows not only periodically present their interests to the State Department, but inform officials on how to carry out investment issues (see U.S. Department of State 2011).

In fact, U.S. economic interests often look towards the Department of State for protection, particularly in Latin America. For example, during the infamous *Metalclad Corporation v. the United Mexican States* (1999), the U.S. Corporation went straight to the U.S. Embassy in Mexico City. Although the governor and residents of San Luis Potosí, one of Mexico’s thirty one states, protested the toxic waste dump site in their area, the Embassy not only immediately took the side of Metalclad, but also failed to engage in any diplomacy between Mexico, the United States, and Metalclad. The then ambassador

merely stated that the role of embassies was for U.S. “political and commercial interests” (Moyers 2002). More recently, wikileaks demonstrate the influence of oil companies and manufacturing over the State Department. U.S. Oil companies lobbied the State Department to convince Haiti to reject Petrocaribe, a regional initiative supported by Venezuela to give Latin American and Caribbean countries preferential rates on oil imports. Moreover, U.S. manufacturing interests lobbied the State Department to pressure Haiti to forego minimum wage increases in the sector (see Coughlin and Ives 2011).

The result of financial influence has led the U.S. State Department, which is the department designed to offer foreign policy analyses, advance diplomatic relations, and conduct foreign relations, to lose any independence in developing and advancing foreign economic and security policy. Instead of incorporating the persistent calls for allowing capital controls in its economic foreign reports, and the Department of State continue to serve as a source for U.S. parochial economic short-term interests instead of general long-term interests. Despite Washington’s warnings, in order to stave off financial crises, developing countries have been increasing relying upon capital controls and other forms of regulation (see Kaplan and Rodrik 2001; Epstein et al. 2003 ). However, the State Department, the closest entity to these conditions, fails to acknowledge and report on the success of such policy tools. Instead, the State Department, through embassies abroad, has supported parochial U.S. economic interests over long-term economic development and stability abroad.

The case of capital controls extends far beyond the U.S. Department of State. Washington has been completely on board to support financial parochial interests. In

addition to the State Department, the former U.S. Secretary of the Treasury Timothy Geithner (2009-2013) personally rejected the calls for flexibility on the issue of capital controls. Specifically for Latin America, this means trade initiatives that completely eliminate any use of capital controls. However, such trade deals put stability and development in the area at risk, decreasing any public goods trade relations could create. Latin American economies continue to attract portfolio investment that can cause economic havoc by creating boom-and-bust cycles, economic bubbles, and massive capital flight. The fluctuation of portfolio investment can often lead to, in the words of Charles Kindleberger and Robert Aliber (2005), “manias, panics, and crashes.”

Latin American economists and policy makers continue to perceive a significant risk in the free flow of capital (Fanelli 2001; Gaggero and Casparrino 2008; Cuenca 2011). In fact, the free trade initiatives between Washington and Latin America go beyond the investor protection advised by international financial institutions such as the WTO (Hornbeck 2003). That is, U.S. investors receive more protection than IFIs suggest. This has worried economists both within and without of Latin America. As Robert Hunter Wade (2005) points out, these rules are shrinking the “development space” for effective economic policies (80). As a result, the subject of capital controls is one of the motivations behind Latin America’s new regionalization stressed in this dissertation. Witnessing the success of relying upon capital controls not only in Latin America, but Asia, South American nations have turned to UNASUR to discuss the issue. Knowing that Washington is against their use, regional organizations that exclude the United States fill the vacuum. During UNASUR sessions, even Colombia, Washington’s staunchest ally, has openly raised the issue. Mauricio Cardenas, a development minister from

Colombia, revealed that the country was looking closely again at the use of capital controls as a viable policy tool, particularly considering the large influx of investment into Latin America (*MercoPress* 2011). For Cardenas, Latin American nations should consider a “coordinate effort” to decrease any individual negative image or investor backlash (Ibid). Chile, another U.S. ally under the government of conservative President Sebastián Piñera (2010-present), is also considering capital controls as a policy tool, which the Chilean finance minister brought up during a meeting of UNASUR (Ibid).

### **The Removal of Parochial Economic Interests**

One could argue that economic interests always influence U.S. foreign policy. The removal of parochial economic interests from U.S. foreign policy, however, helps explain the variance in foreign policy approaches. When Washington and the U.S. Department of State resist and reject the influence of parochial economic lobbying groups, U.S. foreign policy can be drastically different, providing public goods. These goods extend far beyond both Latin America and the issue of international economics. The goal here is to shortly draw upon cases that demonstrate the variance in U.S. foreign policy. The cases are the following: a.) President Franklin Delano Roosevelt’s Good Neighbor Policy and the State Department’s response to Mexico’s nationalization of its oil production; b.) President Harry S. Truman and the State Department’s response to Iran’s nationalization of its oil production; and c.) President George W. Bush and the State Department’s response to Argentina’s debt default.

### **Mexico and Oil Nationalization**

When Mexican President Lázaro Cárdenas del Río (1934-1940) nationalized the country’s petroleum sector in 1938 and encroached upon the interests of Standard Oil

(United States) and Royal/Dutch Shell (United Kingdom), the Roosevelt Administration (1933-1945) came under great pressure to intervene and possibly destabilize the democratically elected president.<sup>98</sup> In addition to the companies directly affected, a variety of U.S. economic businesses, fearful of the dangerous precedent of nationalization, demanded that the president responded harshly (see McConnell 1939). Initially, there were a number of strong verbal exchanges between the State Department and Mexican government initially (Schuler 1998). The U.S. government even suspended the purchase of Mexican silver above global prices (Iriye 1995). President Roosevelt, Secretary of State Cordell Hull (1933-1944), and U.S. Ambassador to Mexico Josephus Daniels, however, ultimately rejected any harsh measures or hostile actions against the country. President Cárdenas's nationalization of oil production, which was part of his Plan Sexenal, was strongly supported by the Mexican people and the Mexican constitution (Cárdenas 2009). Washington only stressed compensation for the nationalization of U.S. property. They supported a Good Neighbor Policy by maintaining solid relations with President Cárdenas. The State Department was even able to reach a deal for economic compensation (Ibid). As Louis Turner (1974) concludes, "The Mexicans were lucky in that Franklin Roosevelt was relatively sympathetic" (399).

This diplomatic stance and rejection of parochial economic interests resulted in stable relations with Mexico. It also helped provide stability within Mexico. Popular pressure for expropriation was strong within Mexico. This support did not only come from the Mexican masses. More importantly, the influential Mexican elite were strongly in favor of the expropriation. As Camín and Meyer (2001) point out, "The opinion of ruling circles in the country was that Mexican oil had to be controlled exclusively by

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<sup>98</sup> For a deep understanding of the nationalization from Mexico's perspective, see Cárdenas (2009).

Mexico” (156). Any attempt to influence policy within Mexico, particularly intervention against Cárdenas, would have been met with a harsh Mexican response. What is more, any attempt to destabilize the government could have not only soiled the U.S. special relationship with Mexico, but also pushed Mexico into relations with the Axis Powers prior to the outbreak of World War II.

### **Oil Interests in Iran**

Only twenty years later, President Harry S. Truman (1945-1953) faced a similar international crisis. While deep into his second term, Iran nationalized its oil production in 1951. Although the Truman Administration’s approach to the problem has received scant academic attention, the case demonstrates how the removal of economic influence can create not only regional, but world public goods. Truman and Secretary of State Dean Acheson (1945-1953) took a similar approach to that of the Roosevelt Administration. Although relations grew tense, Truman and Acheson resisted U.S. and British economic interests that demanded intervention. Instead, Acheson engaged in relations with Iran and tried to convince the British and U.S. oil companies that that nationalization was complete and not reversible. Acheson even met with Mossadeq in 1951 first at Washington’s Union Station and later at Walter Reed Hospital in order to use diplomacy to advance a fair settlement (Elm 1992). In fact, Acheson became outraged at British persistence for intervention in Iran, prompting him to write a strong rejection letter, though later toned down, to Deputy Prime Minister Anthony Eden (1951-1955) (Ibid). Eden continued to demand the ouster of Mossadeq (Chace 1998). Acheson, however, believed that economic interests had too much influence in the British government. “In that area Eden continued to take advice from the same sources which had, I thought,”

Acheson wrote, “Poisoned the judgment of the Labour Party—the bureaucracy of the Anglo-Iranian Oil Company” (in Pirouz 2008, 487). By rejecting economic interests and maintaining an independent State Department, both Truman and Acheson created stability for the region and sustained democracy. If there had not been a change in presidency and, thus, policy in 1954, the Middle East, specifically Iran, could have been a completely different place with better U.S. relations today.

The Eisenhower Administration (1953-1961), however, had other plans. With the incoming Dulles brothers John Foster and Allen Welsh as the Secretary of State (1953-1959) and Director of the CIA (1953-1961), respectively, economic parochial interests and foreign intervention became more acceptable. Allen Dulles (1932) even wrote an article in *Foreign Affairs* stressing the need for a State Department that was more supportive of U.S. economic interests. As a result, British and U.S. oil companies found a friend in the new administration. In 1953, the Eisenhower Administration, with the active support of the State Department and CIA, carried out Operation Ajax, a concerted and successful effort by Iranian dissidents, Washington (through the CIA), and Britain’s MI6 to overthrow Mossadeq. The CIA and MI6 carried out the illegal act in 1953, imposing the Mohammad Reza Shah Pahlavi, who periodically ruled Iran, and his authoritarian rule.<sup>99</sup> The illegal overthrow of the democratically- elected Iranian Prime Minister was one of the biggest errors of the administration. For the Iranians, this caused hatred for the United States and the politicization of the Mosques, led to the 1979 Islamic revolution, and created relational problems between Tehran and Washington that still persist today (Kinzer 2008). Unfortunately, the Eisenhower Administration did not stop

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<sup>99</sup> The Shah periodically ruled Iran and was able to consolidate power over other forces with the 1953 coup. To understand the Shah’s family and power, see Kinzer (2008).

with Iran. Under the influence of the United Fruit Company, Washington, again through the CIA, overthrew the democratically-elected president Guatemalan President Jacobo Arbenz (1951-1954). After coming to power, Arbenz initiated popular land reform programs, distributing idle land of the powerful U.S. Banana company. After lobbying Washington and spreading propaganda against the Guatemalan president, a successful CIA-supported coup toppled the president and instituted a dictatorship that last for decades (see Schlesinger and Kinzer 1990 for more on the coup). The establishment of authoritarian governance created the conditions for instability and guerilla movements for nearly four decades until the 1996 peace accords.<sup>100</sup>

### **Bush and Kirchner**

Finally, a lesser known case between conservative U.S. President George W. Bush and the center-left Argentine President Nestor Kirchner (2003-2007) demonstrates how the removal of economic influence can create public goods in the most unlikely scenario.<sup>101</sup> Although Bush had been close to financial capital, the president and the State Department resisted demands from financial capital to take a strong stance against Argentina after the country became the largest sovereign debt defaulter in the history of international finance. In fact, since the 2001 default, a succession of Argentine presidents became more defiant with creditor demands. President Kirchner became the most confrontational. He continued to ignore creditor demands, which came from both the United States and Western Europe, to restructure the country's nearly \$100 billion debt.

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<sup>100</sup> This dissertation suggests that the overthrow of democratically-elected governments and the establishment of authoritarian regimes, as in the cases of Iran and Guatemala, create instability. This idea is based on the work of Charles Tilly. Tilly (2003) points out that the lack of routine access to government, essentially authoritarianism, for the populace leads to instability and possibly later revolution.

<sup>101</sup> Eric Helleiner (2005) is the only one to write on this case to the author's knowledge.



Instead, he offered an agreement in which bondholders would receive less than 10 cents to the US dollar back on their debt (Bloomberg 2004). “Those who gambled with these high-risk bonds,” President Kirchner announced, “knew that they were playing in a casino” (in Tobar 2004).

Washington, however, did not side with the creditors. “While international investors were predictably upset,” Eric Helleiner (2005) points out, “the response of the USA was more unusual” (951). Instead of calling for a bailout or pressuring Argentina to pay creditors, the Bush Administration engaged diplomatically with Kirchner. Secretary of State Collin Powell met with President Kirchner to offer him support (Grech and Oppenheimer 2003). Even the conservative US assistant Secretary of State for Western Hemisphere Affairs Roger Noriega offered support to Kirchner. “It’s Time for the IMF to be more flexible and reasonable with Argentina,” he declared (Helleiner 2005). Bush himself met with and supported Kirchner to strike deals with the IMF that would tie any new aid to restructuring creditor debt (Ibid). The undersecretary of the Treasury for international affairs at the time, John B. Taylor succinctly explained the strategy: “We want to follow a policy that does not bail out bondholders and improves the market over all” (in Kahn and Sanger 2002, 3). Bondholders of Argentine credit were not happy with the Bush Administration. As the American Task Force Argentina (ATFA), one of a number of groups consisting of investors trying to pressure the U.S. and other governments to take a tough stance against Argentina, wrote on their website, “the Bush administration had not used the option of coordinated pressure on Buenos Aires” (Welt 2007).

The reason behind the Bush Administration's decisions still remains unclear. Instead of markets, a key motivation could have been to pry Argentina out of the influence of Venezuelan President Hugo Chavez. The administration maintained tight relations with leftist Brazilian President Lula de Silva. The State Department may have endeavored to repeat its diplomatic success. Regardless of the motives, diplomacy with Argentina was instrumental for Argentine stability and democracy. Argentina had faced its worst economic crisis, a series of violent protests, and a succession of five ousted presidents within only two weeks at the turn of 2002. If Washington had pressured the government, used interventionist tactics, or applied punitive economic measures, the Kirchner government may not have survived. Instead, stability ensued, economic growth increased, and democracy, through a series of presidential and regional elections, ran smoothly. The White House and Casa Rosada have maintained strong diplomatic and economic relations since. In fact, the lack of influence financial capital has had over Washington in the case of Argentina prompted U.S. and European bond holders to create their own "Task Force" to pressure Argentina and bring the country to U.S. courts.<sup>102</sup>

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<sup>102</sup> For an understanding of what the American Task Force Argentina is demanding, see their website at: <http://www.atfa.org/>.

## CHAPTER 8

### LATIN AMERICA'S NEW REGIONALIZATION: OPENING SPACE FOR ALTERNATIVE DISCOURSE, DEBATE, AND POLICY

#### **Introduction**

Latin American regional agreements have come and gone throughout the last two centuries. Few, however, have actually led to concrete regional institutions and real policy influence. As mentioned earlier, a number of Central American initiatives that aimed to create a common union and shared political institutions throughout the beginning of the twentieth century failed to materialize and produce tangible benefits. Only with the multilateral assistance of the United States, the regional hegemony, and Mexico, an alternative hegemony, was the region able to create the Central American Court of Justice (1908-1918). Other initiatives, however, have not been as fruitful. The Contadora Group (1983-1985) and Esquipulas Peace Agreements (1987), attempts to forge Central American peace, failed to advance concrete conflict resolution strategies. Although they aimed to halt support for insurgency groups, create a better distribution of wealth, and decrease tension between the five republics (Ordóñez and Gamboa 1997), the accords failed to meet these objectives. With the marginalization of U.S. diplomacy and the absence of an alternative power to counterbalance U.S. influence, particularly the Reagan Administration's (1981-1989) illegal war against Nicaragua and unwavering support for the military regimes in Guatemala and El Salvador, the initiatives, though producing well-intentioned guidelines for peace, never had the adequate resources and power behind them. Mexico, the alternative hegemonic regional powerhouse at the time, failed to take on its role. Due to domestic constraints, the country's waning interest in

Central American conflicts, and Mexican President Miguel de la Madrid Hurtado's (1982-1988) decision to cement U.S. bilateral relations, the government opted to withdraw adequate support from the region, causing the country to fail to become a viable alternative power to challenge U.S. hemispheric policies (Castañeda 1985).

Currently, however, Latin America has experienced a renewed interest in the use of supranational institutions. This new interest has emerged out of the rise of leftist political movements throughout the region. Venezuelan President Hugo Rafael Chávez Frías (1999-present) has initiated a number of multilateral regional agreements and supranational bodies, including The Bolivarian Alliance for the Peoples of our Americas (ALBA) (2004), The Declaration of Orinoco (2005), The Union of South American Nations (UNASUR) (2008), The Banc of the South (2009), and The Community of Latin American and Caribbean States (Celac) (2010). While these regional initiatives have occasionally attracted the attention of governmental officials, ideological bloggers, activists, and journalists, they have drawn minimal scholarly emphasis from the academic community.

### **Critical Space**

Despite this failure of scholarship, this study finds that the new rise of international institutionalism in Latin America is of great importance for academic research, particularly international relations scholarship. Instead of relying on the conventional IR theoretical approaches, however, this research draws upon critical literature related to spaces. The concept of space allows us to understand the value of regional institutions beyond the United States and Europe. Focusing specifically on the Declaration of Orinoco, the precursor to the Bank of the South, and UNASUR, this

research demonstrates that the current rise of Latin American regionalization provides what I call critical space for alternative regional policies.<sup>103</sup> By isolating the United States, the regional hegemonic power, South American countries have been able to create space for alternative discourse and debate that have led to genuine change in governmental and economic policies. These policies rely upon not only the use of international law, diplomacy, and regional negotiations to address current problems, but also alternative economic policies to facilitate economic stability and growth.

Space in political theory has a long trajectory. Jürgen Habermas considered public space vital for the creation of democracy. In *The Structural Transformation of the Public Space*, Habermas (1991) posits significant questions regarding democracy. Most importantly, can we know the conditions under which the argument itself and not the status of the individual will guide and determine society's most important decisions? For Habermas (1991), the development of public space, or what he would call the "public sphere" was instrumental (54). Within this space, civil society, not just the elite, could participate and influence society. "For Habermas the coffee houses, salons and table society of Europe were examples of inclusive literary public spaces," Ted Fleming (2008) points out, "because of their equality, critique, problematizing the unquestioned, accessibility and reflexivity" (2). Although space can entail competing powerful political interests, it is also a place in which the voiceless can have a voice. Essentially, public space is an amorphous and often ambiguous place in which all societal members can participate, regardless of their social and economic standing. Space, as Mustafa Dikec

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<sup>103</sup> I use "critical space" for two reasons. First, I draw upon interpretive or what now is often known as critical methods in international relations (see Cox 1981). A critical approach is most fitting since the conventional approaches of related to positivism and alternative IR theories such as realism and liberal institutionalism fail to offer insight into the new rise of regionalization. Second, space connotes an area of critical research that I describe above.

(2005) avers, “becomes the polemical place where a wrong can be addressed and equality can be demonstrated” (172). The concept of opening space for genuine equality and even justice has led to wide range of research agendas. Furguson and Turnbull (1999), for instance, demonstrate how public space was instrumental in facilitating debate over U.S. military occupation in Hawai’i. Drawing upon Derrida and the concept of hospitality, Doty (2006) further demonstrates how space opens assistance for Latin American migrants on the Arizona border. Despite draconian laws against migrant workers and immigrants, there are ambiguous spaces, often overlooked by both scholars and policy makers, which facilitate, Doty (2006) concludes, “practices and experiences” that genuinely lead to humane acts of hospitality along the southwestern borders (55).<sup>104</sup>

Building upon the literature and concept of space, I suggest that flexible regionalization can create the public space in which alternative ideas, discourse, and debate can take place at an international level. This space does not only facilitate the discussion of different ideas, but also leads to genuine policy decisions, most of which the United States, the principal regional hegemon, would otherwise oppose. Drawing upon critical spaces to understand regional organizations is innovative and significant for a number of reasons. First, as with Doty’s case of borders and hospitality, scholars, policy makers, and the media often overlook the importance of space. Even more importantly, in the fields of international relations and international political economy, the theoretical frameworks of neo-realism, economic liberalism, functionalism, and neo-functionalism dominate the literature. Scholars who draw upon theories related to realism stress security concerns. States can engage in cooperation, but primarily for two

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<sup>104</sup> The literature on Habermas and public space is too extensive and dense to capture here. See Fultner (2011) for more on public space and a review of Habermas’ key ideas.

goals: To protect themselves from other states with stronger material capabilities and to balance the expansion of imperial states (see Doyle 1997 for state balancing). The foreign policy of Venezuela is no exception. Drawing upon conventional IR scholarship on state balancing, Marc Eric Williams (2011) confirms that Venezuela is engaging in a “new balancing act” (257). Williams (2011) points out that Caracas is trying to change the unipolar world dominated by Washington by creating a “multipolar order” (260). The alternative mainstream literature on regional integration relies on international economic theory. The objective of states is to integrate economic activity in linear fashion: free-trade agreements, customs union, common market, monetary union, and finally full economic union. Based on the European Union’s experience, most literature analyzes integration within this framework. For South America, scholars have researched integrations, particularly The Common Market of the South (Mercosur), which has attained the status of customs union, and to a lesser extent the Andean Pact, in this fashion (see Pang and Jarnagin 2009). Although both research agendas offer insight into regionalism and integration, critical methods allow us to understand the new regionalization in a fundamentally different way: Spaces allow alternative ideas and policy initiatives to develop. Conventional scholarly approaches, however, fail to understand the importance of space.

The new development of Latin American regionalization, however, raises a fundamental question: Is an alternative hegemon able to provide public goods in the first place? There are a number of concerns if Latin American countries look toward a local regional power. First, an alternative hegemon could merely supplant the dominance of the United States. Since space is fraught with political interests, the power and discourse

of the more influential Latin American states, as well as the economic and social classes that make up these countries, could dominate and marginalize the less powerful ones. Through regional initiatives, countries such as Chile, Venezuela, Brazil, and Mexico have imposed their own parochial interests on smaller states. During the 2006 Peruvian presidential election, for example, Alan García (2006-2011), the winning candidate, and Alejandro Toledo (2001-2006), Peru's outgoing president, accused Venezuela of interfering in the campaign and encroaching on the country's sovereignty (*BBC* 2006). This is a complaint more commonly reserved for the United States. South American countries have also complained about the unfair power structures inherent in regional institutions. The weaker members of MERCOSUR, Latin America's most cohesive and advanced regional institution, have threatened to withdraw.<sup>105</sup> Paraguayan President Nicanor Duarte Frutos (2003-2008) is one who advanced this threat due to the power Argentina and Brazil has exercised over Paraguay and Uruguay. Duarte lambasted the two countries' "selfishness," "hypocrisy" and "protectionism," and demanded "[a] profound correction, a historic reparation" of MERCOSUR if the regional group wished to survive (in Mander 2006). In fact, neighboring countries have often perceived the regional expansion of Brazil, MERCOSUR's most influential member, as a "subhegemonic" power (Turcotte and Mostajo 2008, 804). The country's increasing economic power has put it at odds with not only MERCOSUR members, but also the current rise of progressive movements. Brazilian companies such as Petrobras now penetrate the area. When Bolivian President Evo Morales (2006-present) began nationalizing property on a popular mandate during his first term as president, tension

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<sup>105</sup> Argentina, Brazil, Paraguay, and Uruguay formed MERCOSUR in 1991. Venezuela became a full member in 2012.



grew between Bolivia and Brazil due to the economic interests of powerful Brazilian corporations like Petrobras (Kellog 2007). Will these powerful interests dominate the space created by new regional institutions?

Although such fear is valid, inter-Latin American conflict is qualitatively different from the conflict found between the United States and Latin American nations. First, albeit Latin American countries engage in border disputes, few actually lead to outright invasion. Invasion, however, is a common historical trait in U.S.-Latin America relations. What is more, intra-Latin American conflict never reaches the “scope” or “depth” of U.S. intervention.<sup>106</sup> I use scope to connote the wide range of interventionist policies Washington has exercised throughout the geographic area of the Americas. The United States has intervened in domestic and international Latin American conflict both close to and far from its borders. In addition to the extensive intervention and occupation in Mexico, Central America, and the Caribbean, Washington has reached as far away as Chile and Venezuela to intervene in Latin American affairs. Conflict within Latin America, on the other hand, is predominantly confined to surrounding territories. Although Peru and Ecuador engaged in the Cenepa War (1995) over contested areas of land, for example, the conflict never engulfed other countries. Latin American countries, therefore, do not fight unless they are neighboring states. Mexico will never invade Panama as Washington did in 1989. Furthermore, Latin American nations have never had the “depth” of intervention. Here, I rely on depth to describe the level to which U.S. interventionism runs. Washington invests a great portion of its resources into a wide range of tactics that allow for a deeper level of interventionism. These include covert

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<sup>106</sup> The scope can be considered horizontal, covering a large geographical range, whereas the depth is vertical, meaning the different types of interventionism.

infiltration, spying, propaganda, military bases, Washington-friendly dictators, and so on.<sup>107</sup> Despite a few number of incidents, such as Colombian espionage in Nicaragua (see Silva and Flores 2012), Latin American countries have rarely engaged in such profound intervention.

Finally, there is the fear that regionalization could go in the direction of monetary unions. A monetary union leads to a common currency. President Chávez has suggested that the new Latin American regionalization moves in this direction. ALBA countries have already released el Sucre, a virtual currency allowing certain transactions.<sup>108</sup> The currency, initially valued at US\$1.25, was created to purchase products between member states. Products included various textiles, wood, and staple foods among other consumer goods (*América Economía* 2010b). However, currency overvaluation is genuine fear for South America. It can occur not only with the dollar, as in the case of Argentina's one-on-one peg with the dollar, but with local currencies as well. Venezuela, the world's fifth leading oil producer, suffers from Dutch disease. Dutch disease, named after the Netherlands' experience developing natural gas resources, entails a significant increase in a currency's value. This increase is attributable to the concomitant demand for the currency once the country begins to export a natural resource. The currency becomes so overvalued that other exports become uncompetitive in the international market. Venezuela's currency suffers from severe international pressures. Oil production has a drastic effect on its currency. The bolívar has historically been an unstable currency that swings high and low depending on oil prices. With respect to the international prices of

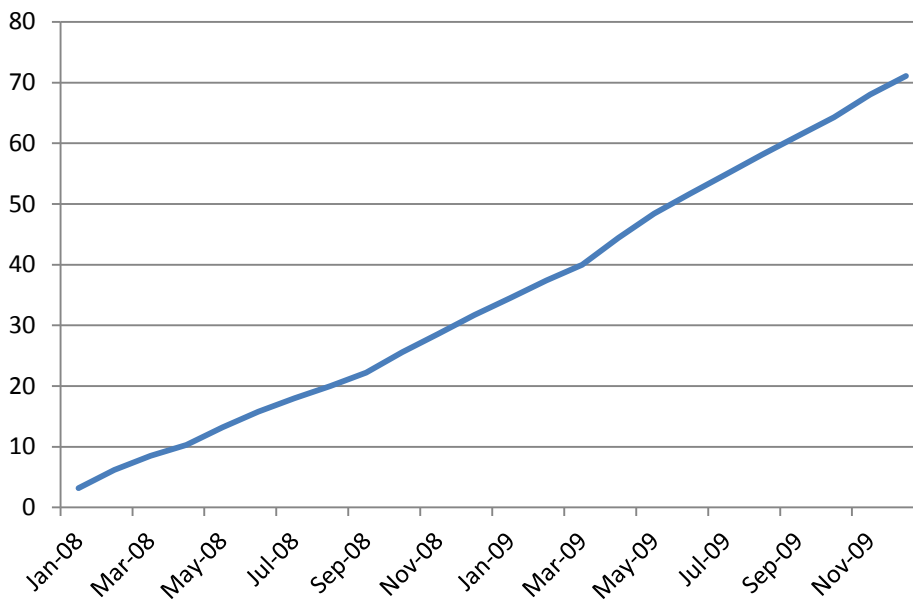
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<sup>107</sup> The literature on this area is quite extensive, spanning decades of research. For an in-depth look at U.S. involvement, see Menjívar and Rodríguez (2005).

<sup>108</sup> The Sucre is named after General Antonio José de Sucre (1795–1830), a general who fought for Latin American independence. He is predominantly known for his pivotal role in the Battle of Ayacucho (1824).

oil, the elasticity of the bolívar’s exchange rate has ranged from 0.5 to 0.8 (Panayotou, Boscolo, and Faris 2002). Therefore, Venezuela’s currency is overvalued, fueling domestic inflation. Although economists often attribute inflation to the spending policies of the populist government (see Ramírez 1991), Venezuela had a history of battling inflationary pressures before Hugo Chávez’s implemented his expansionary policies. This economic concern of inflation still persists today. Just between 2008 and 2009, Venezuela experienced a significant rise in inflation (see Figure 8.1).

Figure 8.1: Venezuela’s core inflation rate (2008-2009) using December 2007 as the base year.<sup>109</sup> Source: Adapted from Venezuela’s National Institute of Statistics.



Although scholars continue to debate the extent to which Dutch disease has affected Venezuela and the extent to which the current government has been able to

<sup>109</sup> These figures are from the country’s “núcleo inflacionario” statistics, opposed to the national index of consumer prices. There is, however, little variation. For an in-depth discussion on the methodological differences, see Huerta (2010).

handle the problem (see Hofer 2006), it exists as a serious policy conundrum. Latin American countries want to avoid linking their currencies to that of Venezuela. Flexible regionalization, however, allows the space through which Latin American countries can benefit from their own independent monetary policies. It recognizes the intrinsic pitfalls involved with sharing common currencies. Flexible regionalization also remains pliable enough to retain the benefits from relations with the United States. Retaining benefits from the United States is a crucial component. Despite the anti-Washington rhetoric, even current Latin American leftist movements have openly conceded their desire to maintain relations with Washington. Particularly in the area of trade and development, center-left presidents such as Lula de Silva (2003-2010) of Brazil and Humala Ollanta (2011-present) of Peru have sought bilateral U.S. trade relations. Uruguayan President Tabaré Vázquez (2005-2010) signed the Trade and Investment Framework Agreement with the United States in 2007. President Daniel Ortega (2007-present) of Nicaragua has continued to offer support for the CAFTA-DR trade agreement. Even President Evo Morales, who kicked the U.S. Drug and Enforcement Administration (DEA) agents out of the country, continually emphasizes that Bolivia-United States relations can be a positive-sum partnership. In recent developments, both Cuba and the United States have even recognized that there are mutual benefits working together on environmental and drug trafficking issues (see Thale, Withers, and Boggs 2012).

Despite numerous benefits, U.S. interventionism in Latin American economic and political affairs often fails to provide stability and progress. The principal problem has been the asymmetric power structure. Conceding the potential long-term benefits associated with U.S. relations, Morales laments that they have not been based on equal

partnership; the United States has historically been the dominant partner. Morales stresses that the interventionist and misguided policies Washington exercises in regards to the cultural use of coca is tantamount to having a foreign nation write Bolivia's own domestic policies. As a member and then General Secretary of the cocalero union and grassroots movement, Morales has resented U.S. efforts to encroach upon Bolivia's sovereignty to undermine the movement and destroy the crop.<sup>110</sup> According to Wikileaks, Ortega echoed similar concerns privately with the U.S. Embassy, lamenting that through free trade, "the developed country can impose its will whenever it pleases" (*Nation* 2011).

Alternative regional institutions, however, can help contain the negative externalities of U.S. influence and allow Latin American countries to experiment with alternative ideas concerning economic progress and conflict resolution strategies. Drawing upon UNASUR and Banco del Sur, two current regional agreements initiated by the Venezuelan government, I examine the extent to which the supranational bodies have the capacity to balance U.S. regional influence. Both UNASUR and Banco del Sur have attracted scant attention from academic scholars and policy makers. The limited sources that have mentioned UNASUR and Banco del Sur fail to engage in an in-depth analysis of how they can serve as viable alternatives to the international initiatives supported and dominated by the United States, such as the Organizations of American States (OAS), the North Atlantic Free Trade Association (NAFTA), the Central American Free Trade Association (CAFTA), the International Monetary Fund (IMF), and World Bank. What is more, scholarly and policy literature dismisses their validity and efficacy of UNASUR and Banco del Sur, depicting them as mere vehicles for President Chavez' political

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<sup>110</sup> For interviews with Evo Morales, Rafael Correa, and other Latin American leftists, see Stone (2009).

agenda against the United States. Barry Eichengreen, a prestigious economist from University of California Berkeley, for instance, dismisses Venezuela's initiative to purchase Argentine bonds in the aftermath of the country's crisis as "a crazy idea" (in Kanenguiser 2005). Eichengreen's characterization, however, is quite superficial. Additionally, in his *New York Times* bestselling book *The Post-American World*, scholar and public "intellectual" Fareed Zakaria (2012) simply labels Venezuela "a troublemaker" and concludes that President Hugo Chávez only offers "insane rants" (19).<sup>111</sup>

As a result of the lack of serious research, a gap has emerged in the literature. Relying upon two case studies, I aim to address this gap and contribute to the literature on regionalization and Latin American studies by addressing the two following questions: What specific regional policies has critical space facilitated and how have these policies made specific changes in either economic or conflict resolution strategies? The first case study, the role of Venezuelan bonds in the aftermath of Argentina's 1999-2002 economic crisis, demonstrates that creating an alternative lending institution can provide space for alternative economic policies. The second case, the use of UNASUR to decrease tension between Colombia and Venezuela, demonstrates that curtailing U.S. influence can actually be beneficial for South American conflict resolution.

### **The "Washington Consensus" and John Williamson**

The two principle types of U.S. influence regionalization aims to curtail are economic and political. The economic model Washington supports has become known as the "Washington Consensus." The Washington Consensus has been debated, vilified,

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<sup>111</sup> The reason intellectual is within quotes is because I find this superficial characterization of the president, an individual who has exerted sweeping influence over the region, to question Zakaria's intellection and inquisitiveness into a region he knows little about.

and praised well enough in other literature to make a rehearsal here quite pointless. However, a brief synopsis is warranted since it remains a principal agent behind the rise of the new regionalization and leftism throughout Latin America more generally. Economist John Williamson originally employed the term “Washington Consensus” in the late 1980s to describe a range of policies to assist Latin American countries out of their economic slump. He formally coined the term in his 1990 book *Latin American Adjustment: How Much Has Happened?* Geared to debt-ridden Latin America, Williamson (1990) laid out ten economic reforms countries could use in order to revitalize their economies: Fiscal discipline, the alteration of public expenditures, tax reform, secure property rights, privatization of public entities, deregulation, more competitive exchange rates, the liberalization of interest rates, and the removal of barriers against trade and foreign direct investment.

A decade later, the Washington Consensus has become a pejorative term to describe neo-liberal capitalist policies that developed countries have imposed on weaker impoverished ones. Williamson (2002b) himself dislikes the idea of the Washington Consensus being negatively associated with insensitive capitalist economic policy. “[T]he world over seem[s] to believe that this signifies a set of neoliberal policies that have been imposed on hapless countries by the Washington-based international financial institutions and have led them to crisis and misery,” Williamson (2002b) laments, “[m]y own view is of course quite different.” Williamson (2002b) points out that the essentials of his plan—economic openness, economic discipline, and market economics—all have wide acceptance even among center-left presidents such as Luiz Inácio Lula da Silva; who has embraced such policies in order to be “electable.” In fact, Williamson (2002b)

argues that he has never enshrined all neoliberal economic policies to begin with; for example, he is against the liberalization of capital accounts in developing nations, a current policy that's very popular with neoliberal adherents. Williamson (1998) also stresses the need for both a large government-supported "safety net," as in the case of Sri Lanka in the aftermath of the country's economic crisis.

Nonetheless, the Washington Consensus has become inseparably linked to neoliberalism. It serves as an umbrella term for a cornucopia of neoliberal ideas on how not only to develop an economy but also to measure economic success. The neo-liberal economic approach emphasizes limited governmental intervention, the privatization of state institutions, favorable conditions for foreign investment, the free flow of capital, utility maximization, low inflation, export-led growth, and deregulated free market capitalism. The evaluative tools economists have used are gross domestic product (GDP) growth, inflation rates, balance of payments statistics, foreign investment figures, fiscal equilibrium, and stable exchange rates. Essentially, advocates of neoliberalism find most state intervention in the economy suspect. The state either precludes economic development at its best, or destroys it outright at its worst. "State-bashing" is often ubiquitous in neoliberal circles. Let the people benefit from the invisible hand of market economics adherents rejoice. The free market knows better than the government; thus, the private sector should grow unhindered by regulation. This often means no environmental regulation, no taxes on foreign investors, and certainly no unions. In fact, keeping macroeconomic stability is a number one priority. Fiscal deficits must be controlled even if it means tough choices. Cutting public expenditures such as healthcare



and education, at times, are important sacrifices for maintaining fiscal equilibrium, keeping low inflation, and sustaining international monetary reserves.

The ideology behind neoliberal economics is not the only force contributing to the need for Latin American regionalization. Powerful U.S. and international economic interests have pushed for not only neoliberalism, but also policies that privilege their particular economic objectives. International bond holders and other groups, as this dissertation has demonstrated, have relied on their lobbying power and contacts within the U.S. government to institutionalize specific guidelines for trade, aid, and development; however, the policies may not be beneficial for the particular host country. As mentioned in Chapter 7, U.S. interests have successfully lobbied for phasing out the use of capital controls, even though economists have advanced support for them as policy tools.

### **The New Interventionism**

The other force is U.S. intervention in Latin American political affairs. Since Latin American nations gained their independence in the early part of the seventeenth century, the United States has increasingly intervened in the domestic affairs of its southern neighbors. In addition to invasions and occupations of Latin American nations such as Mexico (1846-1848), Nicaragua (1910; 1912-1933; 1980-1990), and Haiti (1915-1934; 2004), the United States has intervened through regional and international institutions such as the IMF and the OAS. The United States used the OAS to legitimize a number of questionable policies, including blocking Cuba's participation, the recent Haitian presidential election (2010), and the invasion of the Dominican Republic (1965),

which, after finally receiving approval for a multi-lateral coalition, severely undermined the credibility of the organization (Longley 2011).

U.S. intervention in Latin America, however, has been documented by a wide range of scholars, policy makers, journalists, and activists from both the United States and Latin America. A recapitulation here is not necessary. But it is crucial to understand that U.S. intervention is not limited to only direct military and CIA interference. In lieu of supporting poorly trained and equipped guerillas or initiating and outright military invasion, economic and political interest groups have become more sophisticated. They have learned to utilize relatively new phenomena such as the rise of NGOs, human rights campaigns, governmental-sponsored “peace” and “democracy” initiatives, and grassroots and civil society movements. This is what I call the “new intervention.” Although one could argue that this latter type of intervention represents similar tactics used in the Cold War, U.S. political and economic interest groups have adapted quite successfully to new technologies, movements, and buzz words. For example, U.S. political interests have exerted power through NGOs. As I mentioned in the mini-case study, the International Republican Institute (IRI) was able to receive funding from the U.S. government, create grassroots and civil society organizations, and fight for “democratic freedoms” in Haiti. The objective, however, was to destabilize President Aristide through these proxy movements (see Bogdanich and Nordberg 2006). With deep pockets, the U.S. government has also been able to co-opt academic scholarship, funding Washington-centric journals, databases, and university programs. These scholars engage in “policy critique,” but fail to challenge the world power structures. Essentially, they criticize specific policies, but only to maintain the hegemony of the United States. An example is

Rand Corporation's criticism of Plan Colombia, pointing out that resources would be better used through drug rehabilitation centers in the United States, rather than fighting drug dealers beyond our borders. However, Rand Corporation, self-described as an independent think tank, perpetuates and legitimizes U.S. intervention around the world. In *Soldiers of Reason: The RAND Corporation and the Rise of the American Empire*, the only research to access undisclosed files, author Alex Abella (2008) concludes that the think tank's main object in the 1980s was to support then President Reagan's foreign policy, particularly in Latin America. The objective was not to provide "objective analysis."<sup>112</sup> The new rise of Latin American regionalization could be a powerful force to protect the area from extensive U.S. intervention.

### **UNASUR and Banco del Sur**

The Union of South American Nations (UNASUR) is the creation of a South American political union. The original idea came from the Chavez Administration. At the encouragement of the Venezuelan President, a number of South American nations came together in 2004 to sign the Cuzco Declaration, the initial agreement that set the foundation for the union. The declaration embodied many of the same generic points found in any regional agreement, such as the support for democracy, human rights, and social justice. In 2007, at the behest of Chile, the organization changed its name from the Community of South American Nations (CSN) to La Union de Naciones Suramericanas (UNASUR), or the Union of South American Nations in English. It became an official regional institution, ratified by the twelve member countries, on March 11, 2011. Celebrating UNASUR's constitutive treaty, Chavez proclaimed that the institution would, "defend our independence and consolidate our freedom" (Telesur 2011).

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<sup>112</sup> See the Rand Corporation's website at <http://www.rand.org/>.

Although many of the objectives may not be readily attainable, UNASUR has met its initial goal: To unite all South American countries under one institutional body that excludes the United States and Canada. This achievement cannot be underestimated. Although Chavez has become infamously known for his anti-Washington agenda and discourse, U.S. South American allies have joined the Union. Currently, Venezuela, Brazil, Colombia, Chile, Ecuador, Guyana, Argentina, Uruguay, Peru, Guyana, Suriname, and Paraguay all have member status. Convening states with such a wide array of ideological backgrounds and interests deserves recognition. Colombia is not only governed by a staunch center-right president, Juan Manuel Santos, but also historically embroiled with Venezuela in a number of border disputes. Most recently, However, Santos has given support to UNASUR by being an active member. In fact, through UNASUR, Colombia is one out of six countries that have already begun to share information on military spending. Chile and Brazil originally advanced the idea of coordinating military information during the 2005 Defence Bilateral Working Group and a number of successive bilateral meetings. The initiatives had a number of lofty objectives: Disclosure of military budgets; exchange of military equipment; the creation of a regional military academy; and defence integration. By 2009, all twelve South American UNASUR members officialized the Consejo de Defensa Suramericano under the aegis of the supranational body (Ministerio de Defensa 2009). Interestingly, the six member countries that have disclosed information come from various ideologies. Center-right presidents govern both Chile and Colombia, whereas center-left presidents preside over others: Argentina, Paraguay, Uruguay, and Ecuador.

Being able to unite twelve countries with different ideological views of the world leads to a pivotal question: What self-interest is in it for them? Although intra-Latin American conflict has remained persistent since the early years of independence, there is mutual self-interest for cooperation. First, Latin American nations are cohesive on a number of issues. One current issue pertains to British naval ships off the coast of Argentina. Although the Malvinas islands are considered British territory, Latin American countries have unanimously sided with Argentina on its stance against naval ships in the island's waters. Even Cuba sided with the rightwing dictatorship during the Malvinas War (1982). Moreover, due to tensions between a number of South American nations, a more transparent and consolidated defense group would be in the region's self-interest. Colombia, for example, protested directly to the Russian minister of foreign affairs, Serguéi Lavrov, about the country's multimillion dollar arms sale to Venezuela (*América Economía* 2010a). Colombia, due to historic border tensions with its neighbor, fears a Venezuelan military buildup (see Martz 1989 for Colombia-Venezuela border issues prior to the Chavez era). But Colombia is not the only South American country to harbor such fears. Venezuela and Ecuador are also jittery about Colombia's military capacity. Colombia has sought multi-million dollar weaponry deals from not only the United States, but Israel as well (WOLA 2010). Colombia's 2009 arrangement with Washington to create six additional U.S. military bases and expand its presence on the existent Palanquero base has also created friction with not only neighboring states, but the whole of South America.<sup>113</sup> As a result, South American countries have made efforts to facilitate the sharing of defense expenditures.

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<sup>113</sup> In 2010 the Colombian Supreme Court found the accord, which was signed under President Alvaro Uribe (2002-2010), to be unconstitutional.

This cooperation is often hindered by U.S. intervention. Washington has impeded progress in two ways. First, through its own unilateral initiatives, the United States has intervened or advanced initiatives against the desire of the majority of Latin American nations. The United States has stood alone on a number of important issues such as supporting the illegal coup against President Hugo Chavez in 2002, objecting to Bolivia's emphasis on "food sovereignty," expanding military bases in Colombia, and isolating Cuba.<sup>114</sup> Furthermore, Washington fails to engage in objective diplomacy to assist in settling disputes. Instead, it invests its vast resources to not only privilege one side over the other, but destabilize governments that do not privilege U.S. economic and political interests, as the mini case study on Haiti demonstrates. UNASUR, however, facilitates an engagement that is more balanced and symmetrical. Although every regional organization will have asymmetric power structures among states, they are equal enough to ensure that one does not completely dominate. When the Venezuelan government tried to ensure FARC a place at UNASUR's negotiating table, Colombia successfully blocked the initiative. Even Chavez, who initiated UNASUR in the first place, could not get his way. But the South American countries had no other choice but to cooperate.

### **UNASUR: Conflict Resolution without U.S. Intervention**

UNASUR has served as a fundamental pillar for the new regionalization in Latin America. On a number of occasions, the 12-member organization has opened space for a different type of conflict resolution that is commonly exercised by the OAS. Most importantly, UNASUR excludes not only the United States, but also the concomitant political and economic interests that come with U.S. mediation and intervention. As

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<sup>114</sup> Chile stood with the United States in objecting to Bolivia's use of "food sovereignty. See Food First (2010) to learn more about the issue of food sovereignty.

mentioned above, these interests and biases have often caused the United States to stand alone on a number of vital regional issues. Washington was the only government in the Americas to support the illegal coup against Venezuelan President Hugo Chavez in 2002. Even Colombia, Washington's staunchest Latin American ally, denounced the illegal overthrow of a democratically-elected president. Although Pedro Carmona, the Venezuelan coup leader, suspended the media and all judicial and legislative functions, the United States continued to support Carmona's 36-hour regime. South American governments, on the other hand, called for a return to the democratically-elected Venezuelan president. Washington, therefore, failed to support democracy and stability and demonstrated it was out of step with the rest of the region.

In fact, one of the principle reasons for conflict between Colombia and Venezuela, on which this case study focuses, is partly attributable to U.S. relations with the region. One of the principle sources of tension stemmed from the expansion of U.S. bases in Colombia. On October 30<sup>th</sup>, 2009, Bogotá and Washington signed the Defense Cooperation Agreement (DCA), which allowed U.S. access to seven military bases. Although the U.S. government claimed that a military presence would only address issues related to counterinsurgency and counternarcotics, a document published by the U.S. Air Force indicated that the bases would provide an "opportunity for conducting full spectrum operations throughout South America" including "anti-U.S. governments" (Esquivel and Serna 2009). In response to a perceived threat, Venezuela, a country perceived to be anti-Washington, sent roughly 15,000 troops to the Colombian border. Venezuela, however, was not the only country apprehensive over a U.S. military expansion. Every South American country stood against the bases, rendering U.S.

relations problematic for the whole region. The Colombian Supreme Court finally defused the issue, however, when it ruled that the bases were unconstitutional. According to the Court, the executive branch failed to submit the policy for congressional approval (Amnistía Internacional 2011). The U.S. military regional presence, nonetheless, continues to be a source of conflict, particularly for Colombia's border neighbor Venezuela.

The rise of tension between Venezuela and Colombia, however, goes far beyond Washington. After a Colombian raid into Ecuadorian territory killed FARC leaders in 2008, both Ecuador and Venezuela denounced the incursion. By 2010, tensions escalated to a new high. The Colombian government accused Venezuela of purposely aiding and harboring up to 1,500 members of the National Liberation Army (ELN in Spanish) and the larger Revolutionary Armed Forces of Colombia (FARC in Spanish), two guerrilla groups that aim to overthrow the Colombian government. Both the United States and Colombia classify the groups as terrorist organization. President Chavez ratcheted up the rhetoric, stressing that Venezuela had to prepare for war. "Preparing for war," he stated in his weekly *Aló Presidente* speech, "is the responsibility of everyone" ("Chavez Pide" 2009, 0:15). The conflict spiraled to historically high levels. Due to high levels of trade, shared pipeline, and mineral resource dependency, both countries had an intrinsic self-interest to cooperate. However, historical border issues, deep ideological differences, an arms build-up in both countries, and two leaders trying to prove their legitimacy exacerbated the conflict and hindered any chances of peaceful negotiations.<sup>115</sup> During the 2010 Colombian presidential election, Santos continued to support a hard stance

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<sup>115</sup> Venezuela and Colombia had experienced border tension long before Uribe, Santos, or Chavez took power. For a thorough analysis, see Martz (1988).



against President Chavez. “Colombia has had a very passive stance against Venezuela,” he stated, “the time has come to make Venezuelan President Hugo Chavez respect the differences” (in Reyes 2010).

Failing to be a disinterested regional mediator, however, the United States or the OAS could not serve as an effective arbitrator to reduce tension. Washington had already begun to intervene on the part of Colombia. In a testimony before a congressional hearing, the head of the United States Southern Command, Gen. Douglas Fraser, conceded that there was scant evidence indicating that Caracas was supporting Colombian rebels. “We have not seen any connections,” the General responded to Senator McCain (Rep. AZ) in March 2012, “specifically that I can verify that there has been a direct government-to-terrorist connection” (*Latin American Herald Tribune* 2010). The then Deputy Prime Minister of Spain, Maria Teresa Fernandez de la Vega, echoed the same understanding, stating that Caracas had cooperated with the Spanish government in its enduring fight against Euskadi Ta Askatasuna (ETA), a recognized terrorist group (Ibid). However, after meeting with Arturo Valenzuela, a Latin American official in the U.S. Department of State, Fraser actually changed his testimony, accusing Venezuela of terrorist connections. “Even the Bush administration had never forced its military officers to retract their statements,” Mark Weisbrot (2010), director for the Center for Economic and Policy Research (CEPR) in Washington observes, “when they contradicted the state department's political agenda in Latin America, which they sometimes did.” Even José Miguel Insulza, the Secretary General of the OAS, formerly stated before the U.S. House of Representatives that there was scant evidence linking Caracas to terrorist groups. “You mean does Venezuela support terrorist groups? I don't

think so,” Insulza responded to Connie Mack, a Floridian republican hostile to Latin American center-left movements, “[t]here is no evidence, and no member country, including this one (United States) has offered the OAS such proof” (*AFP* 2008). The political agenda in Washington would have served as an impediment to successful mediation.

Understanding the political stance of the United States, a number of South American states, particularly Ecuador and Bolivia, pushed to have the conflict mediated through UNASUR instead of the conventional OAS. Excluding both the United States and Canada, South American nations believed that UNASUR was the optimal organization that would, in the words of Bolivian President Evo Morales, “not allow war to happen between brother countries” (in Ismael 2010). UNASUR was a major variable that facilitated space for a new type of inter-state dialogue that led to the reduction of tension. Prior to Colombia’s entrance into UNASUR, dialogue and diplomacy between Caracas and Bogotá were virtually absent (Miranda Delgado 2010). Apart from the OAS, South America failed to construct formal institutions that opened space for productive dialogue, debate, and diplomacy. Regional institutions such as MERCOSUR, Latin America’s most integrated organization, have been based on the ideas of economic liberalism and functionalist theory. Essentially, the objective is to create a capitalist institution that, developing in linear fashion, addresses trade concerns by forming trade agreements, custom unions, and finally a monetary union. There is no genuine conflict resolution body. “Mercosur is based on development and trade,” Latin America specialist Andrés Serbin (2009) points out, “but it has not achieved to develop an advanced institutional structure to address conflicts and tension” (149).

UNASUR, however, created space for tit-for-tat shuttle diplomacy between Venezuela and Colombia. The Colombian Foreign Minister María Ángela Holguín later admitted that UNASUR was the most optimal vehicle for peace. This is because the OAS failed to serve as a credible mediator. Latin Americans often perceive the OAS as a vehicle for U.S. interests. However, under the mediation of the UNASUR, Argentine President Nester Kirchner (2003-2007), who served as the UNASUR Secretary General during the Colombia-Venezuela conflict, addressed the conflict more equitably. Maintaining productive relations with both Santos and Chavez, the regional organization “generated confidence on both sides” (in Borda 2012, 17). Creating an environment that generates confidence and trust in all involved parties is instrumental for creating conflict resolution strategies (Ramsbotham et al. 2010). Without U.S. interference, Kirchner aimed to create conditions under which countries could freely debate their security concerns through back-and-forth exchanges.

Aiming to decrease regional conflict, the Secretary General shuttled between different South American capitals first with foreign representatives. Kirchner hoped that President Chavez and in-coming President Santos would later hammer out an agreement after the initial meetings. The first exchanges between the foreign ministers merely entailed accusations. Taking place in Quito, Ecuador, the foreign minister of Colombia, Jaime Bermudez, accused Caracas of harboring and supporting Colombian guerillas groups, while his Venezuelan counterpart, Nicolas Maduro, accused Bogotá of “grave threats and grave attacks” (BBC 2010). Although the exchanges failed to produce concrete treaties or signed negotiations, they facilitated dialogue for one of the first times. More importantly, without U.S. support for Colombia, the negotiations involved a fair

balance of power. The overwhelming resources and power of Washington often significantly influences the side upon which Washington positions itself.<sup>116</sup> However, UNASUR opened space not only for inter-Latin American diplomacy, but also a credible South American mediator.

The second round of talks took place in Bogotá between Nicolás Maduro and a new Colombian foreign minister Maria Ángela Holguín. After three hours of discussions on security matters, both sides came to minor agreements. Most importantly, President Chavez appeared to finally decrease his solidarity with the Colombian guerrilla movements and concede that armed struggle in Colombia was counterproductive. On his program *Aló, Presidente*, Chavez stressed, although always attacking the “empire,” that “the Colombian guerrillas had no future using weapons” (Flacso 2010). For Santos, it meant toning down his rhetoric on accusing Caracas of maintaining safe havens for the guerrillas. Maduro, after the arduous negotiations, stated, “we are very satisfied with the transparent dialogue” (Ibid). In the end, the foreign ministers and Kirchner were able to convince both presidents to finally meet.

The final round of talks took place in Colombia. Despite being skeptical of the organization, the Colombian President finally agreed to meet in Santa Marta, Colombia under the auspices of UNASUR. Initially, the Colombian government wanted to go through the OAS. However, through skilled diplomatic maneuvering, Kirchner and other UNASUR members were able to convince both Presidents Uribe and then Santos to work through an alternative organization. No novice to the political scene, President Santos, the former Colombian Minister of Defense, understood that he still needed the home-

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<sup>116</sup> There are many examples of this hemispheric problem. U.S. influence over Nicaragua in the final CACJ case significantly influenced the country’s decision to reject the case and destroy the Court.

country advantage since he was relatively new to the presidency compared to Chavez' eleven years experience. This would be their first face-to-face meeting.

The final mediation process in Colombia resulted in the reestablishment of relations between Venezuela and Colombia. Throughout the tense mediation process between Presidents Santos and Chavez, each party committed to a number of agreements. These included the following: The repayments of trade debts that the suspension of relations incurred; the reestablishment of trade relations; an integrative effort to invest in social and developmental projects in the border region; and the creation of a commission on Venezuela-Colombia security (*Observatory UNASUR* 2010). Venezuela also ensured Colombia that the country's border regions would not be a safe haven for FARC guerrilla activities (*MercoPress* 2010). Most importantly, Chavez recognized Colombian sovereignty to sign treaties, particularly with the United States, whereas Colombian recognized the potential threat such treaties could cause throughout the region. A bilateral security commission to address such issues would be created by both Venezuela and Colombia (*Observatory UNASUR* 2010).

The overall mediation took place over a 10-month period. UNASUR decreased tension and facilitated peace by excluding U.S interests and creating an environment that fostered confidence and trust on both sides. The space UNASUR provided led to plausible steps for negotiations and the re-establishment of bilateral relations. Even President Santos, who was initially skeptical of UNASUR, later admitted that the regional institution helped create peace and democracy. "But when you are wrong, you must admit it and I acknowledge that my perception was wrong," Santos conceded regarding UNASUR (in *MercoPress* 2012). Even U.S. Secretary of State Hillary Clinton

(2009-2013) praised the role Kirchner and UNASUR played in creating peace (*Buenos Aires Herald* 2010). During a speech before an audience at the New School in New York, Kirchner highlighted the accomplishments of UNASUR. “UNASUR shows we can solve our conflicts,” the president stated (in *26 noticias* 2010).

### **La Declaración del Orinoco and El Banco del Sur**

Conflict resolution policy is not the only area for which the new regionalization can create space. Economic policy can also change. In fact, space is crucial to challenge the hegemony of liberal capitalism. As mentioned above, the Washington Consensus had dominated economic policy thinking throughout Latin America even before the Cold War ended in 1990. When Nestor Kirchner (2003-2007) won the presidency, however, both the new Argentine president and the Venezuelan government understood that the country could no longer continue with the economic and social policies of the previous administrations. By 2001, Argentina experienced one of the worst economic crises in the country’s history. A succession of five governments within a three-year period failed to address the economic down turn and the growing mass discontent.

The economic crisis was tied to the convertibility plan (*la convertibilidad*) (1991-2002). The most influential policy of the plan affected the country’s currency, the peso. In 1991, the Argentine government, under the guidance of the powerful Treasury Secretary Domingo Cavallo, pegged the Argentine peso to the U.S. dollar. The policy created a one-way one-to-one peg. This meant that one Argentine peso would equal the exact value of one U.S. dollar. Because Argentina had entered into a one-way peg, it accepted full responsibility to defend the fixed exchange rate without any assistance from the United States. The exchange rate was regulated under the currency board system. The

currency board ensured that the one-to-one peg was maintained. If the peso was weak, the Central Bank of the Republic of Argentina (BCRA) alone had to intervene, buying pesos and selling dollars to strengthen the currency. If the peso was appreciating ahead of the dollar, the BCRA had to sell pesos and buy dollars to decrease the peso's value. The currency board system also gave every peso-holder the right to change his or her pesos to dollars at the one-to-one rate at any time, meaning that the amount of dollar reserves had to be tied to the amount of pesos in circulation.

The convertibility plan involved more than the fixed exchange rate. It served as an umbrella name encompassing several neoliberal economic policies, including opening the country to foreign investment, controlling fiscal spending (the government promised a “zero deficit”), and following *laissez faire* (apart from defending the exchange rate) principals. The privatization of state businesses was also a major initiative. The government privatized many public-owned companies, ranging from airports to the state oil companies. Multinational companies such as Enron, Duke Corp, and Pérez Company of Argentina bought up oil fields, telecommunications companies, and any other businesses they could get their hands on (Pilling 1995).

The IMF became a staunch supporter of the Convertibility right from the plan's inception. “The Convertibility Plan received strong support from the international financial community and, especially,” Cavallo and Joaquin A Cottani wrote back in 1997, “from the International Monetary Fund. In July 1991, the IMF approved” (18). The fund even offered Argentina special drawing rights. IMF support was justifiable. The short-term economic benefits of the convertibility plan were economically impressive. Although there are many variables influencing economic performance, such as increasing

world prices for exports and influential world growth, economists from a broad ideological spectrum recognized that the convertibility plan played a significant part in Argentina's economic recovery. Even Néstor Kirchner, Argentina's former president and outspoken critic of the plan, recognized its benefits: "When the convertibility law was enacted in 1991 . . . it helped curb inflation. There was a certain improvement in Argentina's economy. Poverty went down . . . you could see improvement in the middle-class" (*NACLA* 2004, p. 4). Other economic indicators improved as well. Between 1991 and 1994, the economy grew at an average of almost 10% a year (Pastor and Wise 2001). Unemployment was relatively low, hovering around 6% in the early years of the plan *Exchange Rate Policy Options for South America* 247 (Buscaglia 2004). Savings were also up. Domestic bank deposits in Argentina were less than 5% of GDP in 1990 (Ibid). By 1994, the percentage had reached 20% (Ibid). GDP was much higher. Argentine policy makers managed to weather the Mexican "Tequila" crisis of 1995 (Pastor and Wise 2001, 64), which further legitimized Cavallo's economic management and vision.

Two negative effects emerged. A country that conducts this policy first loses hard reserves. In the case of Argentina, this had the potential to result in dire consequences. Convertibility laws stipulated that peso holders could automatically convert their holdings to dollars. A lack of dollars would undermine the whole economic system. Second, buying pesos and selling dollars reduces the domestic money supply, leading to increases in interest rates, decrease in growth, diminishing tax revenue, and increases in unemployment. The positive effect of this economic contraction is a decrease in inflation; a decrease in hyperinflation is exactly what the Argentine government promised the masses and investors. One problem was the appreciating dollar. While Argentina as



weathering crises first in Mexico and later Asia, the dollar began appreciating significantly relative to other currencies. In 1996 and 1997, the dollar soared high above the yen and other Asian currencies (Feldstein 2002). The Euro also plummeted 25% in comparison with the dollar (Ibid). The appreciation was so significant that many U.S. export companies were severely damaged (*Financial Times* 1997).

Although the complete economic meltdown is beyond the scope of this paper (see Ripley 2010, for an in-depth analysis), the inability to sustain the convertibility policies led toward economic and social crises. The unmanageable current account surplus, skyrocketing indebtedness, and slowing export growth caused severe economic harm and undermined investor confidence. A current account deficit of 3% made investors and policy makers nervous in industrialized countries. Larry Summers (2004), former U.S. Treasury Secretary, ominously observed that the United States' "startlingly large" current account deficit, which was heading toward 5% of GDP, caused grave concerns for the U.S. government (48). As Argentina's deficit passed this percentage, economic panic replaced the earlier economic optimism.

Instead of ditching the plan, however, a succession of Argentine presidents tried to resolve the economic problems. In 2001, Cavallo, who had returned to the Economic Ministry under President Fernando de la Rúa attempted to save the fixed exchange rate. "The flotation of the peso or a devaluation won't occur," Cavallo confidently announced (*América Economía* 2001), but the policies mimicked the same budgetary cutbacks the government had tried previously. Cavallo cut public worker salaries, pension accounts, and assistance to the elderly by 13% (*América Economía* 2001). According to the Confederation of Health Professionals, an Argentine civic group, as early as 1995, the

government had initiated deep cuts in spending on education and healthcare, including reductions in the salaries of doctors and nurses (Gaudin 2002).

Moreover, the IMF encouraged policies that aimed to placate the nation's international bondholders. The main concern was to restructure debt, offer acceptable initial debt payments, maintain the one-on-one peg with the dollar, privatize industries, and, through severe cutbacks in governmental social spending, balance the domestic budget. In order to meet these objectives, the Fund laid out specific policies. In August 2001, the IMF gave Argentina a rescue package of US\$8 billion, on top of previous funding (MacEwan 2002). The goal was twofold: To close the widening fiscal deficit and meet the payments to private and public lenders. However, the lending failed to meet IMF-targeted goals. The roughly \$150 billion public debt was spiraling out of control. In addition to premiums, bondholders were demanding higher rates of returns at 14% annualized interest rates (O'Grady 2001). As the *Wall Street Journal* wrote: "Bond investors fear that the aid package won't stave off substantial restructuring" (in Karmin and Murphy 2003). As a result, Argentina continued to follow IMF-imposed austerity measures such as more cuts in spending, privatizations, and a fixed exchange rate.

Rescue packages however, failed to provide solutions to Argentina's economic ills. The country's economy fell under another attack: financial speculators, coming in a variety of shapes and sizes. There were international investors in portfolio investments and bureaucrats at credit rating corporations such as Standard & Poor's and Moody's Corporation. Most investors bet that Argentina would fail to maintain the fixed exchange rate, and other investors became jittery. Would Argentina pull out of the convertibility plan, causing a depreciation of the peso? Would Argentina default on its debt? Because

of the fixed exchange rate, investors were not hedging their investments. Even ordinary peso holders would lose; 10,000 pesos worth US\$10,000 could be halved over night if the currency was allowed to float.

The Argentine economy imploded. Recessions in the mid 1990s culminated in a “Second Great Depression” by 2001 (Hershberg 2002, 30). The unemployment rate was almost 20%, and the underemployment rate, defined as those who are working less than they want, was approximately 30% (MacEwan 2002; *BBC* 2003). Income per person also plummeted 14% between 1998 and the end of 2001 (MacEwan 2002). Protests swelled the streets, leaving more than 20 people dead. Ordinary citizens looted grocery stores merely to obtain staple food products. The provinces, strapped for cash because of their own lack of revenue and a decrease in funds from the federal government, began printing their own money. The province of La Rioja printed “Evitas,” named after Eva Peron, to pay workers (*BBC* 2003). By the end of 2001 Argentina had few options. In December 2001, it had defaulted on more than US\$150 billion of its debt (MacEwan 2002). In January 2002, in the midst of economic chaos, street riots, and five presidencies within the period of several weeks, Argentina finally pulled out of the convertibility plan, allowing the peso to float. Within the first day, the peso lost 40% of its value (*América Economía* 2002). About a year later, it had fallen 70% (*BBC* 2003).

When Kirchner entered the Casa Rosada, he wanted to abandon the previous policies and embark on a different course. His initiatives included completely breaking with the Convertibility, devaluing the currency, rejecting IMF-encouraged austerity programs, reversing privatizations, privileging Argentina’s interests over those of international bond holders, and implementing counter-cyclical economic policies through

governmental spending. The president's hands, however, were tied. Influential international financial and political interests messianically lobbied to keep the same policies, albeit reformed, in place. In addition to the IMF, Washington, powerful financial news outlets, and international bonds holders, in and Washington favored continuing such policies.

The Bush Administration initially showed a modicum amount of flexibility toward the Argentine case. After Argentina made the largest sovereign default in history, one would assume that the conservative Bush Administration, which had actively opposed center-left governments in Haiti and Venezuela, would have taken a strong stance against the new president of Argentina, Nestor Kirchner. Kirchner rallied not only against IMF-imposed policies and world capitalism, but also the war in Iraq. Instead of being marginalized and demonized, however, Kirchner found himself welcomed to the White House in 2003. According to Kirchner, Bush, shy of cementing any economic commitment, actually listened as the Argentine president discussed the problems of IMF-imposed policies (Allen 2003). Later, Roger Noriega, the U.S. Assistant Secretary of State for Inter-American Affairs, offered support for Argentina's efforts at restructuring its debt. Many holders of Argentine bonds felt betrayed by not only the Bush Administration's flexibility, but also what appeared to be tacit support for Kirchner's policies. In the eyes of U.S. and international creditors, Argentina became the nation to flout the whole international finance system. But, as a number of prominent Latin American scholars contend, Kirchner had a friend in the White House. "With Bush remaining in the White House," Roberto Russell (2010) points out, "Argentina would

continue to receive support at the IMF and non-interference in the complex negotiations with private creditors. . .” (109).

The Bush Administration’s flexibility did not come out of a change of heart. There were a number of geopolitical interests. First, the administration was embarking on a policy of containment of the influence of Venezuela throughout the region. What is more, the administration, staunchly in a free-market ideology, was sending a message to the international finance community that the era of bailouts was over. Essentially, Bush and his economic advisors were reluctant to support policies that encouraged what has become to be known as “moral hazard.” In the area of international finance, the concept of moral hazard stresses that investors will engage in risky behavior if the costs are removed through financial bailouts. Bailouts, therefore, are counterintuitive and do not fit neatly into the neoliberal ideological framework. “It is interesting to note how the ideas of these neoliberal US policy makers dovetailed nicely with the perspective of the Argentine policy makers who came to power after December 2001,” Eric Hellnier (2005) points out, “Both agreed that international investors were partly to blame for the financial crisis and thus should be made to pay for their mistakes” (962).

Although U.S. flexibility helped forge positive relations between Washington and Buenos Aires, such relations were limited. Before Kirchner took office, the United States had been privileging bond holders over sound policies. Secretary of Treasury Paul O’Neill encouraged Argentina to continue adhering to the same IMF failed policies. “We are encouraged that the Argentine Government is taking substantive steps to address its economic problems,” O’Neill (2002) stated to the press, “and hope that it will now accelerate its work with the IMF to formulate a sustainable economic program, including

an appropriate budget.” The Treasury Secretary even blamed Argentine politics for the crisis, absolving policies supported by the IMF and Washington from any responsibility (Cardoso 2001). “I do not think Secretary John Snow, O’Neil’s replacement, encouraged similar policies. “The United States clearly has a strong stake in helping countries recover from financial crises,” Snow testified in 2004 to the U.S. House of Representatives, “and we have strongly supported the IMF's engagement with Argentina as it has worked to stabilize its economy. These efforts have been producing results” (U.S. Department of Treasury 2004). Snow concluded: “Argentina's current three-year IMF program launched in September provides the basis for Argentina to consolidate its recent macroeconomic progress and to adopt the reforms needed to lay the basis for sustained growth in the years ahead” (Ibid). The IMF economic program and budgetary suggestions, however, were the problem to begin with. The principal objective was to stave off default and reaffirm international investors that emerging markets were profitable investments. The IMF plan worked for awhile. After the 2001 \$8 billion bailout, the price of bonds for emerging markets grew significantly and Argentina’s own stock market activity increased by 8% (Karmin and Murphy 2001). The economy, on the other hand, failed to recover. The downturn only deepened.

Argentina was in a precarious position. Needing to recover from the economic crisis, the country required a financial bailout. As Russell points out, the Bush Administration supported Argentina in the IMF. Kirchner understood, however, that IMF investment would be the continuance of a vicious cycle. The austerity measures imposed by Washington and the Fund would simply be more of the same policies, repeating the errors of past administrations. In fact, in 2004, only a year within Kirchner’s presidency,

the IMF was still demanding conditions, requiring that the country enter into acceptable negotiations with 80% of the country's bondholder debt by September of that year (Hornbeck 2004). The President recognized that the policies preferred by Washington and the IMF would continue a similar neo-liberal agenda at the expense of other policies that could create genuine recovery and growth. Therefore, Kirchner aimed to set a new developmental path. The initial contacts between the two countries began when Nestor Kirchner won the presidency in 2003. After a number of informal meetings, talks finally culminated in "La Declaración del Orinoco," a solidified agreement in which the two countries hammered out the details of Venezuela's portfolio investments in Argentina's public finances. The principal objective was to cancel the IMF's debt while maintaining an adequate amount of international reserves to sustain a sound financial base and initiate spending increases to create jobs, reduce poverty, and increase demand. However, Argentina still owed the Fund up to \$10 billion.

Venezuela was an instrumental factor in Argentina's dilemma. Awash with international reserves through oil revenue, mineral commodities, and a booming economy with 9% growth, Venezuela had enough money on hand to replenish Argentina's central bank reserves. The initial steps began with only \$950 million worth of purchases (*Globovisión* 2005). By 2007, however, Venezuela had purchased roughly five billion dollars of Argentine debt. The objective was clear: Purchase enough bonds so Argentina could pay off the IMF, hold enough international reserves, and break the IMF's conditionality requirements. "We are financially assisting countries in solidarity, but we have nothing to do with the IMF," Nelson Merentes, the Venezuelan Minister of Finances, declared, "we do not put on any political or economic conditions" (in Bazzan

2006). Even South American policy makers who are incredulous of Chavez' intentions conceded that the funding came without conditionality. Claudio Katz (2006), a prominent Argentine economist, criticizes Venezuela's initiative to purchase the country's bonds because, as with the IMF, "[it] maintains the indebtedness of Argentina" (79). However, Katz (2006) continues to note that Venezuela's lending came without any political or economic stipulations. "The IMF is certainly inclined to lend money with guaranties for unpopular fiscal adjustments," Katz (2006) points out, "that Venezuela does not in any way demand" (79).

With this economic and political freedom, Kirchner was allowed to take another path. Argentina's efforts to cancel its debt with the International Monetary Fund (IMF) significantly decreased the reserves in the Banco de la Nación Argentina. Reserves plummeted from roughly \$28 billion to \$18 billion (*América Economía* 2006). By replenishing its reserves, a job commonly fulfilled by the IMF, Argentina was able to advance a number of different policy options. First, Kirchner refused to negotiate the bondholder debt which, in the eyes of many Argentines, was accrued illegitimately through the encouragement of Washington, bondholders, and the IMF. Up until 2005, the IMF had been pressuring Argentina to forgo popular social spending and investments to restructure its debt. Kirchner, however, was able to not only focus more on domestic issues, but break away from the constraints of international financial capital. What is more, by focusing on domestic concerns and not IMF-obsessed fiscal deficits and privatizations, the president could implement expansionary fiscal policies and reverse privatizations that had taken in previous administrations.



The plan attracted controversy. The prevailing attitude in the United States was that it was a mere political move. Eichengreen (2005) dismissed the plan as just another way to “bother the United States.” International finance news outlets vilified not only Kirchner’s economic policies, but those of his wife, Christina de Fernández de Kirchner, who became president in 2007. *The Economist* (2009), for instance, proclaimed: “The Kirchners' economic nationalism is leading their country down a blind alley.” *Latin Finance* would later put Argentina on the list of financially “bad countries” (Crombie 2010). Even in death, the conservative British magazine disparaged Kirchner. When the ex-president dies in 2010, *The Economist* criticized Kirchner as a “caudillo” who ran government “like a personal fiefdom.”

The plan, however, worked. Argentina ditched the IMF and Washington supported policies to take another route. The economy grew, jobs increased, and Kirchner left the presidency with an approval rating of over 65%. Breaking with the IMF was a success. During Kirchner’s presidency, Argentina experienced 9% annual growth, a 70% increase in real wages, a 52% increase in private consumption, and a drop in unemployment from 20% to 9% (Levitsky and Victoria Murillo 2008). Living standards significantly improved (Ibid). Even the Financial Times, the daily for international investors, admits that Argentina was able to break from the Fund: “Argentina paid off its \$10bn debts to the lender in 2006 and has refused surveillance ever since” (Webber and Mander 2011). In fact, early in 2012, the IMF shuttered its doors in Argentina, closing its last office. But it was the specific counter-cyclical policies, refusal to pay off creditors, nationalization of industries previously privatized, and a number of other policies the IMF stood firmly against that brought the country to success. “There is indeed a

remarkable unwillingness in press coverage,” Paul Krugman (2011) wrote in his NYTimes blog on the lack of objectivity covering the Argentine economy and President Christina de Fernández’ reelection, “to face up to the reality that Argentina has done very well since its default and devaluation.”

The assistance of Venezuela cannot be underestimated. Replenishing the reserves of the Central Bank of Argentina was the only way to pay of the IMF and set a path for monetary independence. In December of 2009, when President Fernández tried to pay off a number of creditors with reserves, the act proved extremely difficult. She met stiff resistance from not only opposition members in Congress, but within her own cabinet. Fernández’ objective was to use roughly \$6.5 billion of the Central Bank’s reserves to service outstanding debt (Webber 2010). Congress, however, would not allow her to tap into the reserves without replenishing them. As a result, the president relied upon presidential decree. She justified her actions that the government would save in the long term by avoiding interest payments. Martín Redrado, the head of the BCRA, however, agreed with the opposition. He refused to allow the president to access the reserves, a defiant act that caused his departure. The \$6.5 billion, however, was significantly less than the \$10 billion former President Kirchner relied upon to cancel debt obligations with the IMF. The government, however, had no opportunity to replenish its reserves.

Although Declaración del Orinoco preceded el Banco del Sur, the agreement served as the initial steps for its creation. Opposed to being a mere vehicle for Chavez’ vitriolic anti-United States and capitalism rhetoric, there are genuine policy implications. Venezuela’s initiative facilitated Argentina’s ability to break from the IMF. Furthermore, it offered space to discuss policies outside the conventional Washington Consensus

mentality. Inevitably, however, there are a number of hurdles to create a viable regional bank. Most importantly, there are already numerous lending institutions with disposable capital. Institutions such as the IMF, World Bank, and the Inter-American Development Bank are established entities upon which countries can readily rely. Nonetheless, with previous success, Banco del Sur has attracted the support from a wide range of ideological groups and interests in South America. In Argentina, the small business association supports the local lending institutions to help fund local businesses. Hernán Lorenzino, the country's former Secretary of Finance, points out, Banco del Sur "will be another tool to finance economic, social and ecological development in the region and will serve as an instrument to deal with the consequences of an economic crisis like the current one" (in Webber 2007). What is more, flexible regionalization does not exclude countries from participating in other institutional agreements, as with Greece's situation with the Euro. Greece is unable to change interest rates, alter exchange rates, and devalue its currency since it is locked into the euro zone. All monetary options are forfeited. The regionalization of Latin America can offer the best of both worlds. Currently, however, only four countries—Bolivia, Ecuador, Argentina, and Venezuela—are members of the regional bank. Only time will provide information over the extent to which El Banoc del Sur will become a permanent financial institution.

## **Conclusion**

Instead of relying upon the conventional literature on regional institutions (realism, neorealism, economic liberalism, functionalism, neo-functionalism), critical space allows us to understand Latin America's regionalization process in a different way. Opposed to a linear model that leads to security or economic integration based on

balancing and liberal economics, respectively, critical spaces focuses more on the development of economic and conflict resolution policies that the regional or even world hegemonic power would otherwise oppose. As this chapter suggests, the alternative policies were quite successful, challenging the idea that the United States, the primary regional hegemonic power is a necessary variable for peace and development.

Moreover, this study has implications far beyond the Americas. Regional initiatives between Eastern European countries or Asian countries may rely on regional projects to help curb the more negative tendencies of their regional hegemons, particularly Russia and China, respectively. The drawback of alternative regional organizations is that, as Kindleberger discovered decades earlier, a country needs not only to assume the leadership role, but also to have the adequate resources to play such a role. In the Americas, Venezuela under the leadership of President Hugo Chavez has fulfilled this role. Whether another country in or outside of the Americas will take on this responsibility is a subject for future research.

## CHAPTER 9

### CONCLUSION: ACADEMIC AND POLICY IMPLICATIONS

#### Academic and Policy Relevance

This in-depth analysis of U.S. diplomacy is theoretically significant and policy relevant for a number of reasons. First it strongly suggests why we have variance in U.S. foreign policy initiatives. The variance in U.S. foreign policy is instrumental for understanding how the United States, the regional hegemonic power, could play a more positive regional role. Privileging diplomacy over more bellicose policies could lead to regional public goods, whereas more militaristic policies supported by competing agencies and bureaucrats can lead to public bads. Although the Stuart thesis, which contends that the National Security Act of 1947 helped militarize U.S. foreign policy, offers insight, it is not an iron law of politics. Foreign policy can privilege State Department diplomacy over militaristic approaches. What is more, removing U.S. parochial economic interests from foreign policy decision-making could further strengthen the ability of the United States to have a more positive hegemonic presence. Washington could assist Latin American countries in economic and democratic development.

These findings are extremely important. In addition to having theoretical value related to HST, bureaucratic politics, diplomacy, and south-north relations, there are genuine policy implications that affect the lives of millions of people. The war against Nicaragua during the 1980s and the aftermath of the 2004 U.S. invasion, for example, negatively affected the millions of innocent citizens who live in those respective countries. Finding more optimal policy approaches could allow the United States to play

a more positive regional role, develop a Better Neighbor Policy, and actually provide effective economic policies and conflict resolution strategies.

Based on the findings here, however, this research further suggests that the United States is not likely to play a positive stabilizing role in the Americas. Despite the destabilizing U.S. role, Latin American countries have a means through which they can create their own public goods: Flexible regionalization that excludes the United States. This policy advice is even more pressing with the death of Venezuelan President Hugo Chavez.<sup>117</sup> Chavez provided the leadership to facilitate the current regionalization that has emerged throughout the Americas. Latin American policy makers must understand that UNASUR, Banco del Sur, and other regional initiatives have utilitarian value far beyond the anti-Washington agenda of the former president. Regional institutions help Latin American nations not only bypass their hegemonic neighbor to the north, but also provide regional public goods in the form of alternative economic policies and conflict resolution strategies Washington would otherwise oppose.

### **Future Research**

This dissertation is research generating. First, additional case studies focusing on U.S.-Latin America relations can be advanced to either confirm or disconfirm the theoretical underpinnings that inform this research. Evidence from cases such as the invasion of Grenada in 1983 continues to support the main argument advanced in this dissertation. Second, additional cases beyond the Americas are applicable. For example, if the State Department had not lost bureaucratic wars to manage the interventions in Afghanistan and Iraq, both foreign policies initiatives could have had more favorable results. This suggests explanatory power far beyond the case studies in this dissertation.

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<sup>117</sup> Hugo Chavez died on March 5, 2013.

More importantly, future research on the current rise of Latin American regionalization is imperative. This study suggests that Latin American regional institutions have opened pockets of spaces that have allowed LACS to bypass their hegemonic neighbor to the north. For decades, activists and scholars have described and criticized U.S. imperial tendencies into the area. If UNASUR, ALBA, Banco del Sur, and CELAC can help tame U.S. intervention, as this research suggests, regionalization could be key for Latin American independence, economic development, and even peace. This would not only have great theoretical value, but genuine policy value as well.

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## BIOGRAPHICAL SKETCH

Charles Ripley is a native from Massachusetts. He successfully defended this dissertation on March 27<sup>th</sup>, 2013. His major fields of study in political science are international relations and comparative politics with an emphasis on globalization, international political economy, security studies, and Latin American politics. Living, teaching, and researching in Central America and Mexico before coming to Arizona, Charles had taught for five years (1999-2004) at the Jesuit University of Central America in Managua, Nicaragua. At ASU, Charles has brought his vast international experience to the classroom. In fact, for his last year of funding, Charles was promoted to the position of instructor. Charles has already published three peer-reviewed articles detailing the effects of privatization in Nicaragua, the importance of currency exchange rates in South America, and the current role of Asian investment in Bolivian lithium reserves. He has also published eleven articles in Spanish in Latin America. In addition to formal study, Charles has experience beyond academic scholarship. He has worked at the U.S. Embassy's North American Cultural Center in Nicaragua, the United Nations, the Danish Embassy, the Colombian Business Association, and KPMG International. He is also the recipient of the Outstanding Case Study Award and the Outstanding Student Award from the University of Massachusetts at Boston where he received his master of science (2007). Additionally, Charles was recently nominated for the prestigious ASU Centennial Professor of the year award in 2013. Charles is also the recipient of a number of monetary scholarships and grants.