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La Sombra de las Sanciones: How U.S. Foreign Policies Shape Latin America's Future

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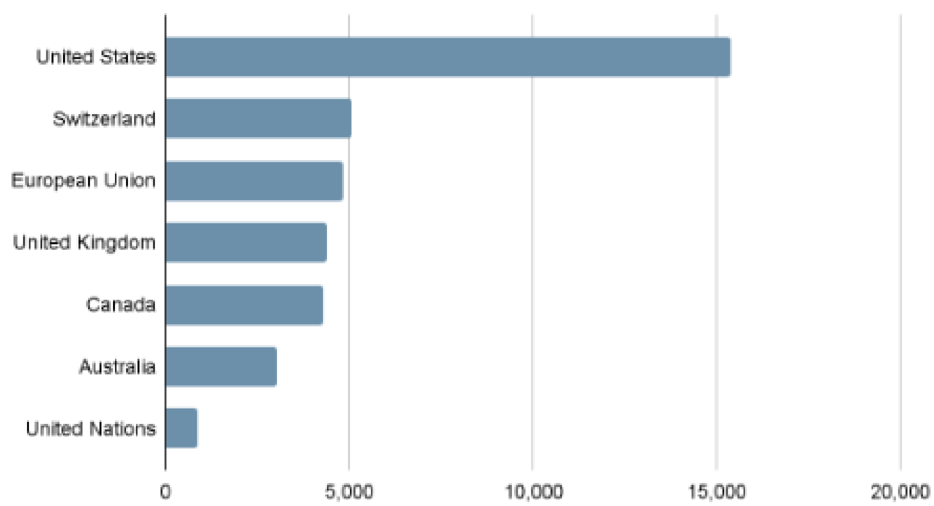
Executive Summary
Despite decades of United States sanctions aimed at curbing corruption in Latin America, the results remain largely ineffective. Instead of dismantling corrupt regimes, sanctions can exacerbate economic hardships, destabilize economies, and fuel mass migration. This issue brief evaluates the effectiveness of U.S. sanctions in addressing corruption in Latin America, using Cuba and Venezuela as case studies, and explores their consequences. Ultimately, the report recommends a reassessment of sanctions as a policy tool and proposes alternative strategies to promote accountability and economic stability in Latin America.

Sanctions Overview:
Sanctions have become a cornerstone of U.S. foreign policy, particularly in Latin America. They are economic restrictions imposed by one country to express disapproval of another nation's actions. They can be comprehensive, aimed towards entire economies, or targeted, aimed at specific individuals, organizations, or sectors. Comprehensive sanctions, like the U.S. embargo on Cuba in the 1960s and similar measures against Venezuela, aim to isolate a country economically in protest of oppressive governance. Targeted sanctions, used against countries like Nicaragua, El Salvador, and Guatemala, focus on specific entities to address corruption and human rights abuses.[1]

The use of sanctions by the U.S., European Union, and United Nations has risen from less than 4 percent of countries subject to sanctions in the early 1960s, to 27 percent today.[2] The U.S. leads the world in imposing sanctions, implementing three times as many as the next closest country, and targeting approximately one-third of all countries globally.[3] As of 2021, the U.S. had imposed sanctions on over 9,000 individuals, companies, and sectors across various countries.[4] Latin America is one of the most heavily sanctioned regions in the world, with a total of 1,990 sanctions, 95% of which are imposed by the United States—exceeding the number of sanctions placed on North Korea and Iran.[5]

Corruption in Latin America:
Political corruption in Latin America has been prevalent since the early 1900s, driven by weak governance, civil conflict, and a lack of accountability. It remains widespread, with reports indicating an increase in corruption over the past decade.[6] Countries like Nicaragua, El Salvador, Cuba, and Venezuela have seen significant erosion of democratic rights, increased human rights abuses, and poverty.[7] In Cuba, the government persecuted and imprisoned its civilians without due process and with disproportionate prison terms. [8]

Figure 1
The U.S. leads the world in imposing sanctions



In Venezuela, Vice President Tareck El Aissami robbed the country's treasury of $400 million in 2017.[9] The effects of corruption are felt all around, for corruption prevents governments from delivering basic services like education, healthcare, and security. Corruption harms national development but also exacerbates social and economic inequality, creating an inhospitable environment.

U.S. Strategy towards Latin America:

Beginning with the Monroe Doctrine in 1823, the U.S. asserted its authority to limit foreign involvement in Latin America while positioning itself as a dominant actor in the region. The original purpose of the doctrine was to increase commerce between both regions, but as time went on, U.S. policy became more interventionist, with successive administrations increasingly involved in the internal affairs of Latin American countries, using their influence to shape regional governance.[10] This shift was particularly evident during the Cold War, when the U.S. sought to combat the spread of communism. When a regime engages in undemocratic or harmful practices, the U.S. typically responds with sanctions aimed at financially isolating the target country with the intent of promoting democracy and discouraging undemocratic regimes.

To better understand the implications of U.S. sanctions, this issue brief examines two critical case studies: Cuba and Venezuela. These cases highlight the complex relationship between sanctions, corruption, and governance, illustrating both the limitations and consequences.

Impact of Sanctions in Cuba:

The U.S. first imposed sanctions on Cuba in 1962 under President John F. Kennedy, establishing a trade and financial embargo through the Cuban Assets Control Regulations.[11] This strategy of isolation continued under subsequent administrations. President George H.W. Bush's Cuban Democracy Act of 1992 further restricted trade, including prohibiting Cuba from buying U.S. products through third countries.

The embargo was solidified with the Helms-Burton Act of 1996, which made the sanctions permanent and required congressional approval for any changes.[12] A shift occurred during the Obama administration, when sanctions were gradually eased and Cuba, under Raúl Castro, began pursuing economic reforms. Facing a shrinking economy, Cuba liberalized parts of its state-controlled system, allowing for more private enterprise and market reforms. The number of self-employed workers nearly tripled between 2009 and 2013. [13]

However, the Trump administration reversed many of these changes starting in 2017, imposing stricter sanctions, limiting family remittances, restricting travel, and discouraging foreign investment.[14] New restrictions since 2019 have prohibited cruise ships and private aircraft from traveling to Cuba. Since 2020, most U.S. travelers have been banned from staying at hotels or private residences owned by the government.[15]

The effects of U.S. foreign policies imposed on Cuba are damaging. Cuba's economy relies heavily on trade and tourism. A 2021 estimate found that the U.S.'s embargo on trade cost the country $144 billion.[16] The United Nations called for an end to the embargo as the debilitating economy in Cuba is not just punishing the regime but the private sector and civilians as well.

The U.S. embargo on Cuba complicates the delivery of humanitarian assistance, which impacts the health and wellbeing of the Cuban people. Licensing requirements under these sanctions prevent the efficient provision of food, medicine, and medical equipment. For example, the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000 reinforced some of the harshest aspects of the sanctions, such as mandating end-user verification for the sale of medicines.[17] While U.S. companies are permitted to sell medicines to Cuba, this requirement makes it exceedingly difficult. During the COVID-19 pandemic, two Swiss companies canceled their sale of ventilators to Cuba due to the complexity of U.S. licensing regulations. [18]

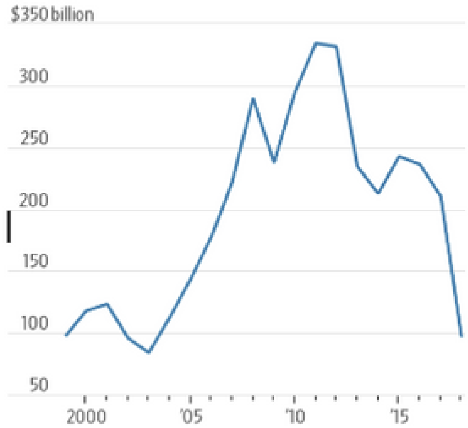
Many companies, fearing U.S. penalties, choose to over comply with sanctions by avoiding any business dealings with Cuba altogether.[19] This overcompliance further hampers Cuba's access to critical supplies. The situation has become so dire that, in February 2024, Cuba was forced to request aid from the United Nations to address a worsening food shortage, underscoring the severity of the economic crisis. Cuba has revealed that resources, such as milk, fuel, and medicine are running low.[20] Despite more than 60 years of sanctions, the embargo has failed to address corruption and instead has caused increasing harm to the Cuban people.

Impact of Sanctions in Venezuela:

The case of Venezuela highlights a key reason why sanctions in Latin America can fail: countries have found ways to circumvent the restrictions. In 2017, Venezuela defaulted on $60 billion in foreign debt after missing a $200 million payment to creditors. Since then, the country's debt has continued to grow due to accumulating interest.[21]

Figure 2

Venezuela's GDP



In response to this act of corruption, the Trump administration imposed a new set of sanctions aimed at crippling the Maduro regime by cutting off access to U.S. capital markets.[22] The goal was to prevent the Venezuelan government from raising new funds to service its debt and, ultimately, to force President Nicolás Maduro from power.[23] However, between 2014 and 2021, Venezuela's economy shrank by nearly three-quarters, and inflation skyrocketed, reaching an annualized rate of more than 1 million percent.[24]

The Venezuelan economy also heavily relies on oil, which accounts for more than 90 percent of exports and more than half of fiscal revenue.[25] After rising for more than a decade, oil revenues fell by 93 percent between 2012 and 2020, and GDP plummeted by 75% between 2014 and 2021.[26] During this same period, per capita income declined by 72 percent.[27] This all mirrored the time when the U.S. hit Venezuela with the first oil sector sanctions in 2017, which were the most debilitating sanctions.

The sanctions had devastating effects on the Venezuelan population, contributing to one of the longest periods of hyperinflation in recorded history.[28]

As inflation soared, Venezuelan salaries plummeted, and foreign banks, citing overcompliance with the sanctions, refused to do business with Venezuelan companies. These economic disruptions also fueled an increase in smuggling, organized crime, and the reconfiguration of international trade networks. [29]

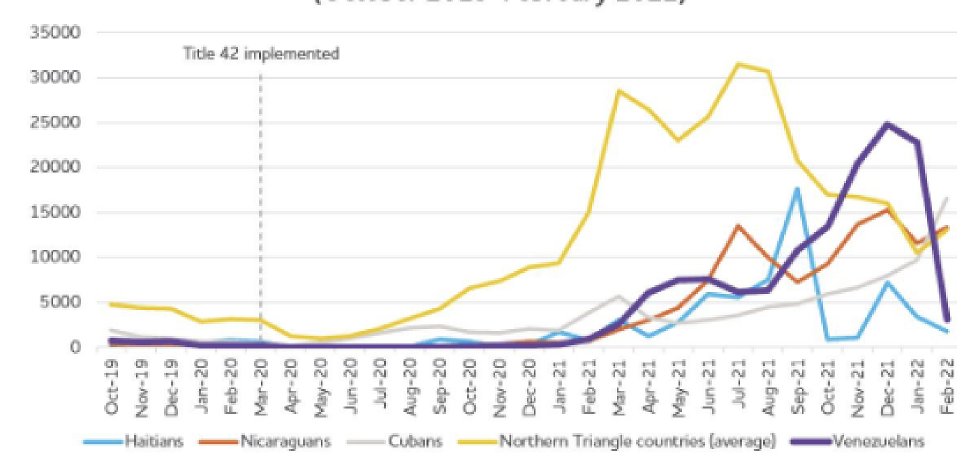
Additionally, the sanctions pushed a significant portion of Venezuela's defaulted debt into the hands of other investors, many of whom operate through intermediaries in places like Russia, Syria, and China.[30] This highlights the unintended consequence that, rather than curbing corruption, the sanctions may have simply driven it underground, enabling illicit activity to persist.

Sanctions as Root Causes of Migration:

Sanctions can severely weaken a nation's economy, leading to widespread instability and hardship for its citizens. The global consequences of sanctions are evident with millions fleeing countries like Venezuela, where over 7.1 million have left since 2014.[31] Hundreds of thousands also have migrated from Central America, Mexico, Haiti, and Cuba each year. Immigration from Cuba, in particular, has been a long-standing trend since the 1960s, and it remains significant today—with more than 200,000 Cubans arriving in the United States in both 2022 and 2023—a figure that has surged fivefold since 2021. [32]

This mass migration has placed immense strain on neighboring countries, which struggle to accommodate and support these displaced populations. The consequences extend further, with the United States being a primary destination for many migrants seeking asylum. However, despite the growing crisis at the U.S. southern border, the U.S. government has largely overlooked sanctions as a contributing factor to the surge in migration. While the government focuses on border security and immigration enforcement, it has failed to address how U.S.-imposed sanctions, intended to pressure governments, often exacerbate economic instability and create the very conditions that push people to migrate.

Southwest Border Encounters by Nationality: Venezuela, Haiti, Nicaragua, Cuba, and Northern Triangle countries (average) (October 2019-February 2022)



Source: U.S. Customs and Border Protection (CBP) Encounters: Nationwide, Southwest Land Border, and Northern Land Border Encounters by Fiscal Year (FY)

Policy Recommendations & Conclusion:

While sanctions are intended to discourage corruption and promote political accountability, their consequences often outweigh their benefits. Sanctions can harm human rights and public health by restricting access to essential goods and services. Research has shown that sanctions, when too broad, can often harm the very populations they are intended to help, while failing to impact the leadership or corrupt elites.[33] In addition, in many cases, sanctions are accompanied by vague or overly broad demands, making it difficult—if not impossible—to achieve their intended goals.[34] Given these counterproductive outcomes, the U.S. State Department and Treasury should devote more resources to assessing the impact of sanctions, particularly in Latin America.

In addition to reassessing existing policies, the U.S. should consider measures to mitigate the negative effects of sanctions on vulnerable populations. In the case of Venezuela, sanctions have been in place for seven years, during which the economic crisis has worsened, and government repression of the Venezuelan people has increased. One solution could be to lift sanctions that have not achieved their intended outcomes.[35] For example, suspending regulations that block food, medicine, and other humanitarian aid would help address urgent public health needs in Cuba and Venezuela. Additionally, the U.S. should expand humanitarian exceptions within sanctioned regimes to ensure that essential goods—such as medical supplies, food, and agricultural products—can be delivered without bureaucratic delays. Another measure would be to remove restrictions on family and non-family remittances, which would provide much-needed economic support to struggling families and ease the financial strain caused by the sanctions.[36] Such a policy shift could also help strengthen connections between the Cuban or Venezuelan people and their families abroad, fostering greater economic resilience and diplomacy.

Ultimately, the U.S. must reassess its approach to sanctions by relaxing policies that harm vulnerable populations, ensuring targeted measures that minimize civilian suffering, and fostering multilateral cooperation. A more balanced strategy, focused on humanitarian needs and long-term diplomacy, will likely yield better results for both the U.S. and its neighbors in the region.

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