U.S. POLICY IN LATIN AMERICA

SEVENTH CONFERENCE

VOL. 21, NO. 1
JANUARY 8-13, 2006
DIRECTOR AND MODERATOR:
Dick Clark

THE ASPEN INSTITUTE
Washington, DC
This project was made possible by grants from the Ford Foundation, the William and Flora Hewlett Foundation, the W. K. Kellogg Foundation, the John D. and Catherine T. MacArthur Foundation, the Charles Stewart Mott Foundation, and the David and Lucile Packard Foundation. The statements made and views expressed are solely the responsibility of the authors.

Copyright © 2006 by The Aspen Institute

The Aspen Institute
One Dupont Circle, NW
Washington, DC 20036-1135
Published in the United States of America
in 2006 by The Aspen Institute

All rights reserved
Printed in the United States of America
ISBN: 0-89843-446-7

1518/CP/BK

Table of Contents

Rapporteur's Summary ................................................................. 1
Julia Swig

New Political, Economic, and Social Conditions in Mexico
and Latin America and Their Relevance for U.S. Policy .................... 7
Cynthia McClintock

Latin America's International Roles and Implications for the United States .......... 15
Jorge Dominguez

The United States and Latin America: Security and Energy .................. 21
Arturo Valenzuela

The North American Opportunity .................................................. 29
Robert Pastor

List of Participants .................................................................... 35

Conference Agenda .................................................................... 37
Rapporteur’s Summary

Julia E. Sweig, Ph.D.,
Project Consultant and Rapporteur

The Aspen Institute’s Congressional Program held its seventh conference on U.S. policy in Latin America at Punta Mita, Mexico, from January 8 through January 15, 2006.

The first session of the conference, “New Political, Economic and Social Conditions in Mexico and Latin America and Their Relevance for U.S. Policy,” was led by Professor Cynthia McClintock of George Washington University. The word “populist” is frequently used to characterize some of Latin America’s recently elected leaders. “Populism” was described as the temptation to “throw the rascals out,” bypassing traditional democratic institutions and appealing to the masses of a population—that only a strong leader can overcome the hollowness of institutions, the collision of political parties, and the exclusion of the majority from economic opportunity that typically has characterized Latin America. Whereas Juan Peron of Argentina was cited as an historical example of populism, in the current Latin American environment, President Alvaro Uribe of Colombia on the right and President Hugo Chavez of Venezuela on the left were cited as populists—neither of whom demonstrates a strong fondness for checks and balances. Yet by conventional definitions of democracy Latin America remains overwhelmingly democratic, with per capita income having doubled in the last forty years and political learning having the effect of keeping the armed forces in their barracks.

The meaning of the word “left” in the current Latin American context signifies a recognition that the free market alone is not enough to address the significant structural inequality and poverty that afflicts the region, and that state participation and regulation of markets as in the European context is a necessary condition for growth. “Left” also connotes a degree of autonomy from the United States, by comparison to the traditional stance of diplomatic deference, and an emphasis on human rights and social inclusion. Among those countries that can be characterized as left-leaning, Chile and Brazil represent two social democratic countries that are market-friendly, that maintain decent relations with the United States, and that are successfully harnessing the benefits of market policies to expand the rights of women and minorities while emphasizing social inclusion. Uruguay seems to be moving in a similar direction, while Argentina under President Kirchner in recent months has been tilting more toward Venezuelan President Hugo Chavez’s style of fiscal indiscipline, rhetorical bluster, and independent regional diplomacy. It was anticipated that President Evo Morales of Bolivia, who won national elections with a larger margin of votes than any president since the transition from military rule began in 1982, will set a course of state economic policy and regional diplomacy with a strongly nationalist preference for harnessing Bolivia’s natural resources, in particular natural gas, for the direct benefit of the country’s poor.
There was a widespread recognition among the participants that the unequal distribution of wealth and income in Latin America, as well as the successful path toward democratization and the limited capacity of institutions in the region, had paved the way for the election of a range of broadly left-leaning political leaders. Whether the reforms of the 1990s Washington Consensus (economic reforms such as privatizing state enterprises, reducing state spending, controlling inflation, and reducing trade barriers) went too far or did not go far enough, there was a recognition that in the absence of land reform, significant investment in education, infrastructure, funding regulatory and judicial institutions, and the rule of law—all critical to competitiveness—Latin America will continue to fall behind other regions of the world, such as Asia, in its attempt to manage its encounter with globalization. Indeed, the experience of Asia was highlighted: after World War II countries such as Japan, South Korea, Thailand, and Singapore made significant state investments in education, land reform, and infrastructure, while providing state protection of nascent industries and instituting progressive tax systems, all with the blessing and often direct assistance of the United States. As a result, and also because the income differentials in Asia were never as high as those in Latin America, Asia has taken off while Latin America has floundered with very few exceptions.

Latin America is having a debate today not about the merits of the market—these are widely recognized—but about the proper role of the state in reducing inequality. The left in Latin America is motivated by a desire for competent governments that can manage the economy, provide investments in education and social policy, and take advantage of genuinely free markets. In this regard, Latin America finds itself at loggerheads with the United States, as U.S. protection of its own agricultural markets runs directly against the interests of Latin Americans reliant on exports of agricultural goods. Latin America is not in a fundamental sense opposed to the United States—the region’s exploration of alternative paths to development within a market framework is not intended as an anti-American gesture. However, the United States, whether in its agricultural protectionism or advocacy of free markets, and emphasis on spending for counter-drug, counter-terrorism, and other security related initiatives suggests, is regarded as an external actor whose interests have often run directly counter to those of Latin America’s.

It was observed that the United States has limited official financial resources for Latin America of a total of some $20 billion in foreign aid, approximately $1.8 billion has been allocated by Congress for Latin America as an obligation to Colombia. Moreover, a substantial portion of U.S. aid contracts require American companies to receive the contracts and/or require recipients to buy American products with the aid money. This has the effect of removing the aid’s potential capacity-building effect within the recipient country. By contrast, in 2005 alone Latin Americans, predominantly from Mexico, living and working in the United States, sent $35 billion in remittances back to their countries, while another $11.8 billion in remittances was sent to Latin America from the region’s citizens working in countries other than the United States. The flow of people out and dollars back to the region has become a structural feature though remittances have not yet been tapped as a source of development, but rather can be seen as a subsidy more akin to a private form of welfare than as a source of economic growth.

The second session of the conference, "Latin America's Growing International Independence and Implications for the United States," was led by Jorge Dominguez, director of the Weatherhead Center for International Affairs at Harvard University. Judging from the significance of Latin America for U.S. exports by comparison to Europe and Asia, the region would seem to represent a policy priority for the United States. Likewise, Latin America and the United States have cooperated on international matters since the end of the Cold War, whether with respect to human rights in Cuba or the establishment of the Inter-American Democratic Charter in 2001. Yet in recent years several factors have given the impression that the United States and Latin America are growing apart: Latin America’s search for greater autonomy from the United States; the emergence of new actors, such as China; the fault lines over agricultural policy and their impact on slowing trade integration; and the growing importance of intra-regional political and diplomatic ties. China’s interest in Latin America’s primary export commodities, whether soy, steel, or oil, or as a platform for exporting manufactured goods to the United States, reflects China’s global drive for resources and markets, and not a deliberate focus on Latin America. Nevertheless, there is a strong political content to China’s interest in the region. China’s principal diplomatic concern with respect to Latin America is Taiwan. With approximately one half of the two dozen countries worldwide that recognize Taiwan in the Western Hemisphere, China is working effectively to leverage its resources to reduce that number, especially with small countries in the Caribbean but also Paraguay. Beyond Taiwan, China seeks recognition by Latin American nations of its status as a "market economy" and otherwise picks and chooses carefully: its ties with Cuba, though important to Cuba, are nearly inconsequential, whereas they are significant with Brazil, one of the largest economies in the world. Yet its reciprocity is limited: too China has not backed Brazil’s quest for a seat at the United Nations Security Council. Likewise, although President Hugo Chavez of Venezuela may wish for greater spiritual kinship with a "redder" China than that which actually exists today, it was argued that China has exercised a moderating influence on Venezuela and deliberately sought to keep its distance.

Beyond China, the explanation for the apparent dispersal of Latin American diplomatic preferences away from a traditional deference to the United States differs depending upon the country or sub-region and upon the relative competence of the diplomatic corps of a given country. In the case of the Southern Cone, Brazil’s political and economic dominance within MERCOSUR—the customs union of Paraguay, Uruguay, Argentina, Brazil and recently-admitted Venezuela (Bolivia and Chile have associate status)—and the sheer size of its economy, have given it the leverage to hold out with respect to a Free Trade Area of the Americas until it can guarantee its producers the best possible conditions for exporting to the United States. It meanwhile projects itself a leader of the Group of 20—mid-size countries that have grouped together to challenge the European, Japanese and U.S. position with respect to agricultural subsidies and trade. In Argentina’s case, President Kirchner’s comparatively inward looking stance and distancing from the United States reflects the aftertaste of dependence upon and disillusions with the International Monetary Fund in the wake of the 2000-2001 financial crisis. His willingness to sell bonds to Venezuela and apparent interest in attempting to connect Argentina to Venezuela via a 4,000 mile gas pipeline is as much flavored by a distancing from the United States as a pragmatic desire to balance Brazil’s power and leverage pragmatic benefits for Argentina with ties to oil-rich Venezuela. Even Venezuela does not exhibit the behavior that is entirely consistent with President Chavez’s anti-American rhetoric. In addition to that country’s dependence upon the United States for fully fifty percent of its oil exports, Venezuela’s diplomats at the United Nations have not changed their country’s voting pattern to reflect their President’s world view. Latin America’s increasing independence should not be interpreted as inherently adversarial.
America's often overlooked contribution to U.S. energy imports highlights the strategic significance of the region. The United States imports fifty percent of the petroleum it consumes from the Western Hemisphere; approximately forty-five percent from Mexico and Canada, and the remainder from South America, including Venezuela and Colombia. Additionally, natural gas from Peru and Trinidad and Tobago enters the United States through American ports. The Andean region has the potential to double its exports of gas and oil, while energy consumption in the United States, barring a major overhaul, will continue to rise in the coming decades. Likewise, China will increase its energy needs by some 150 percent by 2025, and is thus an important potential market for Western Hemisphere energy. In order to fully take advantage of its energy resources—Bolivia has the second largest stock of natural gas in the region, for example—investments ranging from $120 to $200 billion will be needed over the next two decades.

Latin America currently faces the challenge of improving its environment with a better and more transparent legal and regulatory climate, while the United States will be able to enter into a strategic energy dialogue with the hemisphere only by first recovering from a near-permanent culture of crisis-management that characterizes its approach to Latin America. A strategic energy dialogue will need to take place in a multilateral setting, with a recognition that the market alone will not provide the mechanisms needed to successfully convert the region's energy capacity into either profits or social development. A well-regulated institutional environment, a "smart" state, whether in Brazil, Bolivia, Peru, or Chile—four very different countries—will be critical.

The private nature of U.S. energy companies mitigates against the United States having a strategic view of the Western Hemisphere's energy resources, while the nationalized nature of the energy sectors in Mexico, Argentina, Bolivia, and Venezuela, and the "resource nationalism" that pervades many of the region's energy producers, has yielded underinvestment in the energy sector. Mexico in particular is enormously sensitive to U.S. talk of investment in its oil sector, yet the three candidates now running for president understand the need for greater investment.

There are exceptions. For example, Chile's copper industry remains nationalized, but foreign investment has been managed successfully and profitably. Brazil's model has likewise successfully incorporated private and public funds, for example to produce ethanol from sugar cane or switchgrass, to make the country entirely energy independent. In Mexico, by contrast, some sixty percent of state oil company PEMEX's revenues go to the state, which under current Mexican law limits the prospects of foreign investment to an extraordinary degree, to the point where Mexico has become a net oil importer due to its industry's under-capacity.

In short, it is not the participation of the state in the region's oil companies that is the problem but instead the lack of competition. Avoiding the "resource curse," devising ways to yield a "development dividend" from its resources, and managing an approach to their extraction that respects but is not impeded by "resource nationalism" represent the critical challenges for Latin American countries rich in energy resources but lacking in a coherent strategy to exploit them to the benefit of the region's impoverished majorities. Likewise in the United States, policymakers would benefit from greater information about and coordination with strategies with which the multilateral institutions, such as the Inter-American Development Bank, the Organization of American States, or the Overseas Private Investment Corporation are approaching energy resource development in the hemisphere.

The fourth session of the conference, "A North American Community," was led by Robert Pastor, vice president of international relations and professor at American University. Pastor presented a vision for a North American community shared by Canada, the United States and Mexico that encompasses deeper economic integration, cooperation in creating a North American security perimeter, and shared investment in Mexican development as critical components of North America's global competitiveness with respect to China, U.S. world leadership, and a long-term strategic approach to reducing immigration from Mexico to the United States. Although NAFTA successfully increased trade and investment, it did not plan for possible failures, like the peso crisis, and did nothing to address security. Trade is also more costly because of inadequate infrastructure. Although NAFTA wanted to promote a safe and healthy border, Mexico's development challenges and as a way to diminish the pressures of immigration, the increase in trade and investment that have result led did not raise average income levels in Mexico, and immigration increased. Whereas the European Community's founding charter envisioned a shared future, the founding document of NAFTA was more narrowly framed as a contract between separate entities.

But in light of the global pressures on Canadian, U.S. and Mexican economies, and the security demands that came to light as a result of the September 2001 attacks, it is necessary now for the governments and populations of the three countries to begin to think of themselves as members of a North American community and to begin to create institutions and initiatives to reflect that vision. For example, the three countries should post officials from their respective security institutions at one another's corresponding institutions in order to promote trust, share intelligence, and cooperate on the myriad security related issues that derive from the shared borders. Likewise, by creating a single union and common external tariff the three countries can eliminate rules of origin requirements that impede trade. With respect to customs and enforcement, a North American passport, or posting American customs agents in Mexican airports so that Americans can clear customs in Mexico as they do in Canada upon returning to the United States, are other examples of ways to harmonize the flow of people. A North American regulatory commission, with representatives from each of the three countries, would likewise help to harmonize trade.

The paramount challenge of North America, however, one that will represent a longterm strategic response to the pressure Mexicans feel to immigrate north in search of better paying jobs, is closing the income gap between Mexico and its two northern neighbors. NAFTA raised wages in the northern part of Mexico owing to the region's greater connectedness to the United States. But the central and southern parts of Mexico remain highly underdeveloped, disconnected by the lack of physical infrastructure from the northern part of the country, and underserved with respect to education. The core proposal, then, is to create a "North American Investment Fund," to be administered by the World Bank (and/or the Inter-American Development Bank) under the supervision of a board appointed by all three governments. The Fund would invest 20 billion over ten years in infrastructure and education in the north and center of the country; $10 billion per year would come from Mexico, $9 billion per year from the United States, and $1 billion from Canada. Mexico's contribution would come from increased tax revenue, while funds contributed by the other two minority members would derive from their respective appropriations processes, or from bond issues or a tax on trade. The fund would not be presented as a loan but as grants, and not in the form of conditionality but rather as an incentive for Mexicans themselves to enact the kinds of reforms with respect to tax revenue, pension reform, and the energy sector—opening it to private investment, for example—that Mexico has long needed to make but for which political stasis between the new and ruling parties, and a questionable commitment from elites, has prevented to date. In the immediate term, immigration from Mexico would not subside, but over the long term, sustained growth and job
creation in Mexico would certainly reduce some of the factors that drive Mexicans to seek higher wage jobs north of the border.

Policy discussions throughout the conference generated a number of ideas. Public diplomacy, foreign language training, and educational exchanges that reach beyond Latin America's elites were cited as approaches that might help overcome the perception that American motivations vis-à-vis Latin America are necessarily negative. Participants proposed a range of additional initiatives, such as the creation of a blue ribbon commission on Latin America; consideration of social development or cohesion funds such as that which the European Union extended to Greece, Portugal, Spain and Ireland; requiring American contractors to demonstrate in-country capacity-building measures that will result from U.S. government contracts in Latin America; a fuller discussion of ways to make more effective and equitable use of the benefits of genuinely free markets and trade; a greater disposition to engage in multilateral approaches to regional and foreign policy challenges; the need for Latin Americans themselves to debate how their own countries, many of them still in transition to democratic societies, are meeting the realities of globalization; the need for the United States to think strategically about Latin America rather than reactively when a crisis arises; a joint consideration of how social development can be jump-started on the basis of revenue from minerals, gold, gas and oil without either the United States or the countries of Latin America relying excessively on these resources; a consideration of the extent to which the United States genuinely supports democracy in Latin America; greater coordination between Congress, executive branch agencies, and multilateral institutions; a closer look at how to spread the benefits of trade and a recognition that trade in the absence of effective, well-regulated and transparent institutions, together with smart state investment in education, infrastructure, and health cannot possibly alleviate the inequality and poverty afflicting much of the region.

New Political, Economic, and Social Conditions in Mexico and Latin America and Their Relevance for U.S. Policy

Cynthia McClintock, Ph.D.
* Professor of Political Science and International Affairs
George Washington University

The early and mid 1990s were years of partnership between the United States and Latin America, where both democracy and free markets were taking root. In 1994, thirty-four countries of the hemisphere met at the Summit of the Americas; President Bill Clinton predicted a Free Trade Area of the Americas that "will stretch from Alaska to Argentina," and the countries signed an agreement for its completion by 2005. The presidents of the largest countries in the region—Brazil’s Fernando Henrique Cardoso, Mexico’s Ernesto Zedillo, and especially Argentina’s Carlos Menem—were close allies of Washington; Menem perceived "carnal relations" between Argentina and the United States.

By contrast, at the 2005 Summit of the Americas in Mar del Plata, Argentina, President George W. Bush’s call for a resumption of talks for the Free Trade Area of the Americas did not prevail. The countries of Mercosur (Argentina, Brazil, Uruguay, and Paraguay) as well as Venezuela maintained that the United States must first end billions of dollars in U.S. agricultural subsidies. At a stadium rally prior to the summit, in front of a giant portrait of Che Guevara, Venezuelan president Hugo Chávez, appearing with Bolivian presidential candidate Evo Morales and Argentine soccer legend Diego Maradona, proclaimed the Free Trade Area of the Americas "dead." Thousands of protesters hurled epithets such as "fascist" at President Bush.

Why has the partnership between the United States and Latin America eroded? Is it because the post-1978 democratic wave in the region is receding, succumbing to populism? Is it because Latin America is shifting to the left? Answers to these questions will become clearer during the course of the year; presidential elections are due in eleven Latin American nations by December 2006. Also, answers depend on the definitions of "populism" and "left," and so I will define these terms.

"Populism" is defined by most scholars as the political mobilization of mass constituencies by charismatic leaders who seek to challenge established elites. Usually, these leaders are charismatic, and seek to establish direct, unmediated ties to their followers rather than to build political parties and institutions. Populist leaders have often sought support from loosely organized popular sectors; they may distribute food or other material assistance directly through their office in exchange for political support. Their ideology may be to the left or to the right—or vague and inchoate. Populist leaders may be popularly elected, or not; however, they at best are disinterested in the institutional checks and balances that are also fundamental to liberal democracy.

While scholarly analysis of populism is considerable, it is scant of the concept of "the left." I offer a definition that I believe reflects common usage in the United States today. It includes three components:
1) A certain skepticism toward free-market economics and capitalism. While today's left does not champion the expropriation of industries or condone fiscal irresponsibility as it did at times in the past, it does not believe that free trade and private investment are magic bullets. It seeks a strong public sector to regulate key dimensions of the economy. Also, the left is particularly concerned that social policies be developed to alleviate poverty and inequality.

2) A certain distance from the U.S. government. The left is inclined toward a critical view of the United States. It perceives the U.S. government as pursuing "hegemony" rather than partnership in the Americas, and accordingly focuses less on a strong bilateral relationship with the U.S. and more on concerted alliances with other countries in the hemisphere and across the globe.

3) A greater concern for human rights and social inclusion. The left would like to hold accountable the military officers who assassinated and tortured civilians during the "dirty wars" of the 1970s-early 1980s. It also seeks to enhance civil rights and opportunities for women, for indigenous peoples, and for people of African heritage. If programs for women's rights alienate the Catholic Church, so be it.

By these definitions, I submit that, while two current Latin American leaders—Venezuela's Hugo Chávez and Colombia's Álvaro Uribe—are populists, populism is not widespread in Latin America today and the democratic wave is not receding. However, I do believe that, overall, Latin America is shifting to the left.

Populism and Democracy in Latin America

There is a long tradition of populism in Latin America. Independence—Spain was achieved through long and bloody wars that ravaged the region. In their aftermath, Latin American politics remained militarized; rival caudillos continued to fight over spoils and national boundaries. A tradition of the powerful "strongman" and weak institutions was set.

In the mid-twentieth century, as labor movements began to emerge and for the first time could be politically mobilized, populist leaders were numerous, including Argentina's Juan Perón, Brazil's Getúlio Vargas, Peru's Victor Raúl Haya de la Torre, and Ecuador's José María Velasco Ibarra.

During the Cold War, Latin America's democratic institutions—in any case precarious at best in most of the region—fell victim to the rivalry between the United States and the Soviet Union. In most Latin Americans' views, the United States seriously exaggerated the Communist threat in the region and, in its frequent resort to alliance with Latin American militaries, overreacted. As of 1974, the only nations that were widely classified as democratic were Costa Rica, Venezuela, and Colombia.

However, during the administration of Jimmy Carter, democracy began to revive in the region, and by 1990 at least one reasonably free and fair election had been held in every Latin American nation except Cuba. In contrast to previous pro-democratic eras in the region, the post-1978 democratic wave has lasted. The only Latin American country where an elected president that has been ousted and replaced by a military government was Haiti in 1991. A considerable number of elected leaders have been deposed amid popular protest, but have been succeeded by civilians amid efforts to respect the constitutional order. Freedom House annually ranks every country in the world on political rights and civil liberties; since 2005, its average grade for Latin American countries (excluding Cuba) has been a B, slightly improved from previous years and dramatically improved from the early 1970s. (Freedom House's scores range from a sum of 2 on the two indicators to a sum of 14, which correspond to a grading scale, including pluses and minuses, from A to F.) For 2004, Chile, Uruguay, Costa Rica, and Panama received grades of A or A−; Argentina, Brazil, El Salvador, Mexico, and Peru, B+ or B; Bolivia, Ecuador, Honduras, Nicaragua, and Paraguay, B; Colombia, Venezuela, and Guatemala, C+ or C; Haiti, D; and Cuba, F.

Democracy has endured in Latin America for various reasons. First, after the experience of repressive military governments during the Cold War, more Latin Americans have embraced democratic values, according to the Chile-based public-opinion organization Latinobarómetro, in 2005 some 62% said that in no circumstances would they support a military coup, a figure almost identical to previous years. Also, Latin American publics are much better educated than they were forty years ago. Today, almost all Latin American adults are literate; more than 85% are enrolled in secondary school (versus approximately 40% in the early 1970s). Further, higher levels of economic development correlate with democratic government; by the late 1990s, per capita income in Latin America was approximately double the level of the 1960s. Several Latin American nations—Argentina, Chile, and Uruguay—have reached the threshold for per capita income at which scholars have posited that democracy is virtually certain to survive, and many have reached the threshold at which scholars have posited that it is also likely to survive.

However, while electoral processes and civil liberties are largely respected in most Latin American countries, the performance of the institutions responsible for democratic governance has been disappointing to most Latin Americans. Surveys in the Latinobarómetro poll, for example, report that they are "not very satisfied" or "not at all satisfied" with the way democracy works in their country (although the majority are slightly slimmer in 2005 than in 2004 or 1996). In particular, political parties are pivotal to democracy. Parties should socialize and recruit honest, able political leaders and bind political leaders and citizens together through the development of common policy goals. However, in Latin America, many political leaders are mistrustful of each other and some are corrupt; parties fragment and cannot fulfill their requisite roles. Also, when political parties have become institutionalized, they have often collided in corruption and ignored the common good. Sadly, this was the case in both Venezuela, where for decades the Democratic Action and COPEI parties held power, and in Colombia, where the Liberal and Conservative parties were hegemonic for an even longer period. Citizens' anger at what purported to be liberal democratic institutions led to the rise of populist leaders in the two countries.

Venezuela's Chávez won presidential elections for the first time in 1998, and then again (under a new constitution) in 2000; he is poised to win re-election easily in December 2006. However, Chávez is a personalistic leader who connects on television every Sunday with Venezuelans through his program, "Aló Presidente." He is a Fifth-Republic Movement, which includes military officers and early-1960s guerrilla leaders, is often out of the governing loop. Reaping a bonanza from the skyrocketing price of oil, Chávez has dramatically enhanced access to health care and education for the poor, and he has established a network of markets where prices are subsidized—programs that were fundamental to the post-2005 increase in his approval ratings to approach 90%.

In 2004, new provisions increased executive and legislative power over the supreme court, and approximately 60% of justices are provisional—without job security—and vulnerable to official influence.

Although Colombia's Uribe is on the right, he is also a populist. Like Chávez, Uribe heeds the electoral process, but focuses on his personal, unmediated relationship with Colombians. Every Saturday, he attended town meetings in different parts of the country, often lasting more than ten hours and televised. He has sought to bypass institutional checks and balances through the use of national referenda. At one time a leader of the Liberal party, he broke ranks with the party prior to his 2002 campaign for the presidency and has not
formed a new party or institutionalized a relationship with other parties. Like Chávez, Uribe points to his high approval ratings (approximately 70 percent) to justify increases in presidential power, such as the recent law permitting his run for a second consecutive term.

The Rise of the Left in Latin America

First, it is important to point out that the left is not rising throughout Latin America. Central American governments remain on the political right or center. All but Costa Rica have ratified the Central American Free Trade Agreement (CAFTA), and Costa Rica is likely to do so soon. The Bush administration enjoys a particularly close partnership with the Salvadoran government; for many months, the administration lobbied for the election of a former Salvadoran president to the leadership of the Organization of American States (OAS). Although it is possible that the left (the Sandinista Daniel Ortega or former Sandinista Herty Lewites) will win the 2006 elections in Nicaragua, it is not probable.

Nor is the left strong in two Andean nations, Colombia and Peru. Both these nations have endured savage insurgencies, and majorities in both countries appear, at least at the moment, to favor "get-tough," "law-and-order" policies. Uribe is the closest ally of the United States in South America. Colombia receives approximately $700 million annually in U.S. aid and hosts roughly 800 U.S. security personnel; many Colombians credit U.S. support, coupled with Uribe's leadership, for recent declines in political violence in the country. Peru's Alejandro Toledo has also partnered with the Bush administration. Both the Colombian and Peruvian governments are vigorously negotiating free trade agreements with the United States. In Colombia, Uribe appears virtually certain to win re-election in 2006, and a center-right candidate, Lourdes Flores, is leading the opinion polls for Peru's 2006 elections. Finally, in the Southern Cone, Paraguay is closely allied with the United States.

Elsewhere, however, the trend is to the left, at least to some degree. In Mexico, the shift is only likely in the future, after the July 2006 elections. In two countries—Chile and Brazil—the shift is slight, and primarily on the dimension of human rights and social inclusion. In two others—Argentina and Uruguay—the shift is considerable, and incorporates a greater role for the public sector in the economy and a more independent foreign policy. In two Andean nations, Ecuador and Bolivia, the shift reflects the growth of indigenous movements that seek political inclusion as well as socioeconomic reform. And finally, of course, the change in Venezuela under Chávez is dramatic.

In Mexico, the government of Vicente Fox has had its differences with the Bush administration; but, on key issues such as free trade, Fidel Castro, and Chávez, Fox has stood with the United States. However, both the current frontrunner, Andrés Manuel López Obrador, of the Partido de la Revolución Democrática (PRD), and Roberto Madrazo, of the Partido Revolucionario Institucional (PRI), which governed Mexico for 71 years, have now turned against Fox's election, would likely place more distance between Mexico and the United States. Both the PRD and the PRI are also more distant from the Catholic Church than Fox's party, the Partido Acción Nacional (PAN). Mexico is an oil-producing country, but the state's oil company, PEMEX, is troubled. López Obrador promises not to open the company to private investment but to provide more state oversight and investment. López Obrador has also criticized the NAFTA (North American Free Trade Agreement) stipulation that Mexico must open its borders to imports of corn and beans, which would hurt Mexico's peasants.

The presidents of both Chile and Brazil—Richard Lagos of the Socialist Party and Luiz Inácio "Lula" da Silva of the Workers' Party, respectively—have leftist pasts, but have maintained market-friendly policies and close relationships with the United States. Indeed, under Lagos, Chile signed a free trade agreement with the United States (as Chile did with numerous other nations also). Although Lula is a staunch critic of U.S. and European agricultural subsidies, this criticism reflects Brazil's interest as an agricultural superpower and is likely to continue under any Brazilian administration. With respect to these countries' economic policies, the only shift is greater emphasis on poverty alleviation, which has been particularly successful in Chile. Both nations have initiated "conditional cash transfer" programs that provide cash to poor families on the condition that children attend school and visit health clinics.

Lagos and Lula have moved their countries to the left primarily on the dimension of human rights and social inclusion. It has been revealed that Chile's former dictator, Augusto Pinochet, held millions of dollars in secret bank accounts at Riggs Bank; battling legal charges since 2000, Pinochet was recently indicted in Chile for human rights violations and corruption. The new revelations tainted Chile's right, and in part as a result the "authoritarian enclaves" of Chile's 1980 constitution—which tilted power to the military—have for the most part ended. Also, in the wake of the recent presidential campaign, the frontrunner is Socialist Michelle Bachelet, who promises to maintain Lagos's economic policies but to place more emphasis on education. A single mother who worked as a nurse for 28 years, she would be the first woman to be directly elected president in Latin America not preceded in the office by a husband or father. In Brazil, Lula has sought to establish affirmative action programs for Brazilians of African descent. While Lula's popularity had been robust for his first two and a half years in office and he had been poised to win re-election in October 2006, in mid-2005 he was entangled in a corruption scandal, and his electoral outcome is now uncertain.

Like Chile, Argentina and Uruguay have recently sought more vigorously to hold accountable the human-rights violators of their repressive military regimes. However, in these two countries, the shift to the left is not only with respect to human rights and social inclusion but also with respect to economic and foreign policies.

In 2001, Argentina defaulted on about $100 billion in debt; it was the largest debt default by any nation in history. The ensuing financial collapse was devastating to most Argentines; urban riots exploded and there were five different Argentine presidents within the course of two weeks. While the International Monetary Fund (IMF) and U.S. Treasury Secretary Paul O'Neill blamed Argentine politicians, successive Argentine governments placed a great deal of the blame on the IMF and the United States. (In a recent Zogby International poll, 65% of Argentines rated U.S. international influence "moderately negative," a larger percentage than in any other Latin American country). Elected in 2003, Peronist Néstor Kirchner has been a tough negotiator with the IMF and with the private sector. In 2005, the Kirchner government achieved an unusually generous debt restructuring with approximately 75% of its creditors in which each dollar was worth about 30 cents. Also, keeping oil and utility prices in Argentina at artificially low levels, the Kirchner government has battled several giant multinational corporations. While the relationship between Presidents Kirchner and Bush is cordial, it is not "carnal;" the Argentine government has welcomed economic support from Venezuela. Kirchner's policies are popular among Argentines, who disavowed his faction of the Peronist party a decisive victory in legislative elections in October.

In 2005 in Uruguay, Tabaré Vázquez of the Frente Amplio (Broad Front) party, which includes former revolutionary guerrillas, became the first president of the country who did not hail from the Colorado or the National Party in more than 150 years. His triumph had been foreshadowed in a 2003 referendum in which Uruguayan voters voted to re-impose a state monopoly over the country's oil company. Vázquez immediately initiated a "Social Emergency Plan" for the alleviation of poverty. Vázquez has sought a constructive relationship with Washington—but with leftist leaders as well. On the first day of his presidency, Vázquez restored Uruguay's diplomatic relations with
Cuba. Also, the Uruguayan and Venezuelan governments have signed an agreement for Venezuela's provision of oil under favorable terms for the next twenty-five years, and Uruguay is a key partner for Venezuela in the launching of the Latin American television broadcasting company, Telesur.

In two Andean nations, Ecuador and Bolivia, the rise of the left has been concomitant with the growth of indigenous movements. In both nations during the post-1978 democratic wave, large indigenous populations that were dominated by European descendants since the colonial era have mobilized; they were pivotal to the ousting of more than one president in both countries since 2000. Both Ecuador and Bolivia could become allies of Chávez's Venezuela, and both could become "failed states."

Since approximately 1990, Ecuador's indigenous movement has been led by the Confederación de Nacionalidades Indígenas de Ecuador (CONAIE). Calling for land reform and anti-poverty programs while criticizing privatization initiatives, CONAIE mobilized with other dissident groups to depose presidents in 1997, 2000, and 2005. In 2005, the president was succeeded by the vice-president, Alfredo Palacio; his increased social expenditure has threatened Ecuador's capacity to service its international debt but has not apparently satisfied the poor. Like his predecessor, Palacio has embarked on initiatives to increase presidential power that have alienated both political leaders and citizens, and it is not clear that Palacio will survive until the presidential elections scheduled for October 2006.

In Bolivia, coca production was widespread among indigenous peasants during the 1980s and into the 1990s; in the late 1990s the Bolivian government partnered with the United States in the "war on drugs" and most Bolivian coca was eradicated. However, the anti-drug effort provoked an intense backlash; Evo Morales, who is Aymara (Bolivia's largest indigenous group), emerged as the principal leader of the coca growers. In the first years of the new millennium, it became apparent that Bolivia enjoys the second largest natural gas reserves in South America, and the Bolivian government proposed the export of the gas to the United States. This plan sparked sharp recriminations that Bolivia was selling out its natural patrimony at bargain prices. The coca and gas issues have been at the core of the protests that toppled one Bolivian president in 2003 and another earlier this year. Currently, Evo Morales, heading the MAS (Movimiento Toward Socialism) party, is the frontrunner for the December 2005 election; he has promised to legalize coca production and to reassert sovereignty over Bolivia's natural resources. If Morales is inaugurated president, it appears likely that he will ally with Chávez; if he is not inaugurated president, it appears likely that protests will remain widespread in Bolivia and that the country could become a "failed state."

Of course, Hugo Chávez is the Latin American leader farthest to the left; he champions "socialism for the twenty-first century." As indicated by his words at the rally prior to the summit in Mar del Plata, Chávez vehemently criticizes the free trade concept. Although Venezuela continues to sell its oil to the United States and the U.S. continues to buy it, the Venezuelan government has restructured the state-owned oil company and has worked within OPEC to prevent low oil prices. As mentioned above, the government has dramatically increased access to health care and education for Venezuela's poor, and has also launched a network of markets where goods are sold at subsidized prices.

Most threatening to the Bush administration, however, is Chávez's foreign policy. Of course, Chávez regularly excoriates the Bush administration. Chávez is Fidel Castro's friend and protégé; indeed, Chávez's support for Cuba has become so important that he could be a key player in any political transition on the island. The Chávez government not only champions the vision of liberator Simón Bolívar for an integrated South America, but currently, as a result of the quadrupling of oil prices in recent years, has the resources to advance this vision. Venezuela has provided agreements for cheap oil sales to most of the Caribbean countries as well as numerous South American nations. His government acknowledges support for Evo Morales in Bolivia, and is widely believed to have funded violence-prone opposition groups in Peru, Colombia, and Ecuador. Telesur could become a pro-Chávez television station broadcast throughout South America.

Why is Latin America Moving to the Left?

On the one hand, it is not at all surprising that the left is gaining strength in Latin America today. By all accounts, Latin America is the most unequal region of the world; in many countries, ethnic majorities of indigenous or African descent have been the longstanding victims of socioeconomic discrimination and political exclusion. As democratic institutions take root in the region, efforts to address these inequalities should be expected and, indeed, welcome.

Also, Latin America may be shifting to the left because the United States has moved to the right. As the Cold War ended, successive U.S. administrations worked in multilateral fora to build democracy in the region and to rescue Latin American countries threatened by financial crises. Since September 11, however, the Bush administration has been focused elsewhere, and its inclination toward unilateral approaches and its war in Iraq have alienated many Latin Americans. The Latinobarómetro polls registered sharp declines in support for the United States in numerous Latin American nations, including Argentina, Brazil, and Mexico; for example, in Mexico, positive opinions of the U.S. plummeted from 72 percent in 2000 to 41 percent in 2004. At the same time, Latin American nations have perceived opportunities for new economic partnerships, especially with China.

The most complex factor, however, is the region's disappointment with the free-market reforms of the 1980s and 1990s, generally called the "Washington Consensus." Although economic growth has been robust in Latin America since 2003, the 1980s were known as "the lost decade" and 1998-2002 as the "lost half decade." During the 1950s-1970s, when the state was playing a much larger role in most Latin American nations' economics, growth rates—and poverty-reduction rates—were superior. Although most U.S. analysts believe that Latin American economies have performed relatively poorly in recent decades not because economic policies have been too market-friendly but rather because they have not been market-friendly enough, this interpretation is not common in Latin America. There, the emphasis is on the corruption that was concomitant with the privatization process and the need for rigorous negotiation with international investors.

Recommendations for U.S. Policy

1) Set a positive and consistent example of democracy and rule of law at home and abroad. Latin Americans take note when the U.S. government welcomes coup attempts, as it did in April 2002 in Venezuela.

2) Reconsider policies that are unwelcome in Latin America and indeed are problematic from various perspectives. In particular, reconsider U.S. agricultural subsidies, the "war on drugs," and the U.S. embargo against Cuba.

3) Launch an "Alliance for Progress" for the twenty-first century that would prioritize social programs for Latin America's poor.
Latin America’s International Roles and Implications for the United States

Jorge L. Domínguez, Ph.D.
Director, Weatherhead Center for International Affairs
Harvard University

From 1979 to 1990, democratic transitions spread through South America, culminating with the fall of the dictatorship in Chile. The end of the Cold War between the United States and the Soviet Union helped to end Central America’s civil and international wars through negotiations and then elections. Throughout the Americas, governments shifted economic policies in a pro-market direction.

Beginning during President Ronald Reagan’s second term, U.S.-Latin American relations improved substantially. The U.S. government recognized and gradually came to support these positive developments, especially during final steps in the democratic transition in Chile and Paraguay. Highlights during President George H. W. Bush’s presidency included the successful pacification of Nicaragua and El Salvador, the signing of the North American Free Trade Agreement (NAFTA), and the beginning of hemispheric-wide trade negotiations. In 1991, with active U.S. support, the Organization of American States committed itself to defend constitutional democracies under attack; the governments of the Americas were especially effective in defeating coup attempts in Guatemala and Paraguay in the 1990s and also in promoting Peru’s democratization in 2000. Highlights during President William Clinton’s administration were the ratification of NAFTA, the successful pacification of Guatemala, and support for Mexico’s full democratic transition.

Latin American countries became effective international protagonists. Argentina and Chile, Argentina and Brazil, and (pending a maritime boundary settlement) Chile and Peru resolved the many remaining boundary and other dispute legacies of times past, creating a “zone of peace” in southern South America. The United States contributed to the settlement in 1998 of the long-lasting territorial dispute between Peru and Ecuador, which in 1995 had led to war. Argentina, Brazil, Paraguay, and Uruguay created a southern common market known as MERCOSUR (in Spanish) or MERCOSUL (in Portuguese), which reinforced these political relations, fostered cooperative security arrangements (including turning Argentina and Brazil away from the prospects of nuclear weapons development), and promoted intra-regional trade and investment. U.S. trade and investment relations with these countries improved as well.

The new independently generated international roles of Latin American countries converged with U.S. objectives and produced “an era of good feeling” in hemispheric relations. Moreover, during those same years the European Union (EU) turned its attention eastward to assist democratic transition in former communist Europe; the EU’s relative importance to Latin America is modest outside southernmost South America. The decade-long stagnation of Japan’s economy during the 1990s weakened Japan’s salience for Latin America. Therefore, for posi-
tive reasons that connected the United States to Latin America as well as for these exogenous distractions, the United States and Latin America from the 1980s to the 1990s came to matter more for each other and to enjoy better relations. One lesson from those years is that independent international roles for Latin America’s countries can match U.S. interests well.

In more recent years, the United States has focused its international energies on questions of terrorism and the war in Iraq. Latin American governments continued to pursue their own independent roles, with varying success and under new constraints. Most of the region suffered from the international recession at the start of the current decade; Argentina’s economy collapsed. Most Latin American governments support multilateral institutions to manage common international problems and thus at times differed with specific foreign policies of President George W. Bush’s administration. The U.S. and the most important Latin American governments at times differ quite publicly, as evidenced most recently at the inter-American summit meeting of heads of government held at Mar del Plata, Argentina, in November 2005.

On important issues, however, Latin American governments have continued to work closely together. As war began in Iraq in 2003, the Mexican government deployed its military and other security forces to secure its borders and any means of access that might have injured the United States. U.S.-Mexican security cooperation has improved substantially since then. Several Latin American governments, most notably El Salvador, sent troops or other forces as part of coalition forces in Iraq. The U.S. military intervention in Haiti in 2004, at the request of the Bush administration, was replaced with United Nations peacekeepers under Brazilian military command and staffed mainly with Latin American forces. U.S.-Brazilian negotiators shaped the course of negotiations over free trade in the Americas.

In thinking about other dimensions of Latin America’s international independence, two new issues stand out. They are the basis of the two cases studies that follow. First, how did Latin America respond to the attack on the United States on September 11, 2001, as one way to understand their own responsibility for the course of U.S. relations with them, and what light does their response at that time shed on the professional management of the foreign policies of Latin American states? Second, China has emerged during the current decade as a major worldwide international actor. How should its new international role in Latin America be assessed?

September 11 as a Window on Latin American Foreign Policy Professionalism

The terrorist attacks on New York and Washington on September 11, 2001, were a human tragedy on a very large scale. It also opened a window to observe the wide variation in the competence of Latin American governments who, faced with an unanticipated event, had to manage how to respond to the United States. Consider two pairs of countries. On the eve of 9/11, Cuba and Venezuela had poor to bad relations with the United States while Mexico and Brazil had excellent to good relations. Cuba and Brazil responded effectively to that episode. Venezuela and Mexico did not.

The Cuban government had the most at stake. Cuba was on the U.S. government’s list of states that harbor terrorists and could have been a proximate object of U.S. retaliation against international terrorism. On the very day, September 11, however, President Fidel Castro condemned the terrorist acts in strong and unequivocal terms and proposed three steps to assuage the United States: 1) Cuba indicated its willingness to deploy emergency health-care personnel to New York, 2) It volunteered blood banks for possible transfusions, especially where rare blood types might be insufficiently stocked in U.S. blood banks, and 3) Cuban airports were ordered to be open for any emergency landing by U.S. aircraft.

The Cuban government’s objective was to deter an accidental military incident with the United States and to establish one possible channel for further bilateral communication. Both objectives were achieved. The U.S. government noted the Cuban response. And in the following months, the United States and Cuba cooperated around the U.S. base at Guantanamo to improve coordination concerning public health and other security measures after thousands of soldiers from the Afghan war were sent there. U.S.-Cuban military-to-military relations provide the single most effective and reliable relationship between the two governments today.

Brazil has had a broad, difficult and complex agenda in relations with the United States. The future of a Free Trade Agreement of the Americas rests above all on the U.S.-Brazilian relationship. The Brazilian response to September 11 did not make trade disputes go away but it demonstrated the diplomatic skills of President Fernando Henrique Cardoso, Foreign Minister Celso Lafer, and the Brazilian Foreign Ministry. Brazil invoked the Inter-American Treaty for Reciprocal Assistance on the grounds that a country of the Americas had suffered an international attack; an attack on one was an attack on all. This unprecedented step, reviving a moribund multilateral instrument to support a Bush administration not known for close cooperation, generated no cost to Brazil but gained a measure of U.S. goodwill. Brazilian leaders and diplomats understood that the United States, above all, needed a hug.

The Mexican response, in contrast, was baf ling. The initial expressions of horror at the terrorist attack were soon overcome by an unseemly public debate on whether Mexico would be drawn into the U.S. war on terrorism and be subjected to U.S. supervision. Moreover, during Mexican President Vicente Fox’s visit to Washington just before the September 11 attack, Mexico had given formal notice that it would pull out of the Inter-American Treaty for Reciprocal Assistance. After September 11, Brazil’s invocation of this treaty as its means to express solidarity with the United States contrasted with Mexico’s announced withdrawal from the alliance.

The oddest aspect of the official Mexican response was President Fox’s behavior. Fox had worked for Coca Cola, speaks articulate English, had made improving U.S.-Mexican relations one of the pillars of his administration, and cultivated publicly and privately a friendship with his similarly boot- and-cowboy-buddy George W. Bush. Fox, alas, allowed his Cabinet members to squabble in public about how close to become to the U.S. government, even though he should have understood that the United States needed a hug. It took Fox two weeks to order his Ministers to shut up in order to repair the damage to U.S.-Mexican relations. It should have been easy for Fox to respond effectively to September 11; the stakes were very high for Mexico to foster good relations with the U.S. government. Instead, U.S.-Mexican relations went into a deep freeze, deferring for months cooperation on various topics.

Venezuela’s response, finally, was ludicrous. Days after the United States went to war with Afghanistan’s Taliban government, on his nationwide television program President Hugo Chávez accused the U.S. government of the “killing of innocents” in Afghanistan. The U.S. government protested vigorously and recalled its ambassador from Caracas. Chávez’s statements and these comments backfired on Chávez. Soon thereafter, also on his television program, Chávez apologized to the U.S. government and even used the English-language words “I’m sorry” while on camera. Official Washington had not liked Chávez before September 11 but it had restrained its expression of opposition. As Venezuelan politics turned against Chávez in late 2001, the U.S. government made it clearer that it would no lament Chávez’s departure from the presidency.

The response of these four governments to September 11 reveals the capacity of their leaders to assess their interests, to identify useful policy means, and to act in an effective and timely fashion—or not. These qualities of executive and diplomatic competence or lack there-
of shape Latin American foreign policy implementation today more than ideology, the prior character of relations with the United States, or even prior personal engagement with U.S. society. The foreign policy establishments in Cuba and Brazil are competent. They are highly influential in international affairs, Cuba certainly well beyond its resources. Mexico’s foreign policy establishment is less competent and Venezuela’s is least competent. Mexico is much less influential in international affairs than its resources would imply. Venezuela’s influence varies directly with the price of petroleum, to which its officials add little and subtract much.

China’s New Relations with Latin America

China matters everywhere, even in Latin America. From 1990 to 2003, the value of China’s imports from Latin America increased nearly thirteen-fold and the worth of China’s exports to Latin America jumped by a factor of twenty-three. In 2003, Sino-Latin American trade neared $24 billion. The same evidence looked at differently shows that, in 1990, the worth of China’s imports from Latin America amounted to 2 percent of all Chinese imports and the value of China’s exports to Latin America was 1 percent of all Chinese exports. By 2005, the respective statistics were 3 percent and 2 percent.

The principal explanation for the boom in Sino-Latin American trade, therefore, is the spectacular pace of China’s economic growth and the growth of its worldwide international trade. Sino-Latin American trade has grown rapidly because China’s international trade has grown rapidly. China’s imports from Latin America led the way because China wished to diversify its international sources of raw materials; this growth made it possible for Latin America to import from China as well. Political relations between China’s government and Latin American governments also improved to a large extent because intergovernmental agreements opened the gates to facilitate economic relations.

The Latin American response to China has two noteworthy features. First, China has long had substantial cross-ideological and multi-partisan domestic political support in the major Latin American countries which preceded the rise of social-democratic governments in Latin America in the current decade. The political foundations for good Sino-Latin American relations were set under right-wing military dictatorships in Latin America in the 1970s—specifically in Argentina, Brazil, and Chile. Latin America had long been ready for a boom in its relations with China.

Second, there is substantial variation in the quality of Sino-Latin American relations across countries. The closest match between improved economic and political relations occurred with regard to Brazil, and the widest discrepancy with regard to Venezuela, with other countries such as Argentina, Chile, Cuba, and Mexico in between. I will illustrate this variation with regard to Brazil, Mexico, and Venezuela. Sino-Brazilian relations are evolving effectively, Sino-Mexican relations feature a strong dimension of conflict, while Venezuela costs China more than the actual relationship has warranted.

Brazil was the first Latin American country that the Chinese government called (in 1994) a “strategic partner.” Brazilian governments have systematically sought to strengthen relations with China. Sino-Brazilian diplomatic relations were established in 1974, when an anti-communist dictatorship governed Brazil. In 2004, Sino-Brazilian trade, which quadrupled between 2000 and 2004, topped $9 billion, as China became Brazil’s fourth most important trade partner. The expansion of Sino-Brazilian trade in the current decade is a direct consequence of China’s entry into the World Trade Organization and the subsequent reform of its trade practices. A number of China’s market access concessions under WTO that went into effect in 2004 covered product areas where Brazilian companies are strong, which explains why the trade boom is recent. Direct investment has also increased between the two countries.

Sino-Brazilian relations exhibit a wider strategic component as well. One Brazilian government interest is for China to provide a “soft balance” vis-à-vis U.S. influence, especially but not just in South America. In 2002, for example, Brazil and China, among others, worked successfully to derail the U.S.-European Union proposals for the Cancún 2002 Doha Round of international trade negotiations to demand greater concessions from the North Atlantic countries.

There are also some concrete strategic issues. Between 1988 and 2004, Brazil and China signed five bilateral agreements regarding the development of space satellites. The first two Sino-Brazilian earth resources satellites were launched in 2000 and 2009 on Chinese Long March 4B rockets from the Taiyuan space launch center in China; Brazil supplied 30 percent of the financing and technology. In addition, in 2004, Brazil—with one of the world’s largest reserves of uranium—announced that it intended to process and export enriched uranium; one of its markets would be China. Brazil’s state-owned nuclear-power enterprise (NUCLEP) has explored investments in China. The International Atomic Energy Agency has made Brazil’s policies an object of concern. Finally, on a more symbolic scale, China’s first military presence ever in the Americas began in September 2004 with the deployment of 125 riot police officers to Haiti as part of the United Nations peacekeeping force there, under the command of a Brazilian general.

Mexico’s relations with China are more problematic. Mexico has had diplomatic relations with China since 1971 and is today second only to Brazil in its overall trade importance for China. In 2004, the stock of accumulated Chinese investment in Mexico exceeded $28 billion, especially in clothing and plastics. However, President Vicente Fox’s government has pursued ambivalent and at times antagonistic policies toward China and has not supported China’s emergence as a major political actor in the world or a “soft balance” of U.S. influence. The Fox administration has engaged in a steady stream of small diplomatic incidents that have soured Sino-Mexican bilateral relations.

Mexico behaves as if China were to pose an economic threat. It worries that in 2003 China displaced it as the second most important source of U.S. imports. Mexico was the last of the 141 WTO member states to clear China for WTO membership. China does not purchase petroleum or many other natural resources from Mexico; thus China runs a trade surplus in its relations with Mexico, the only major Latin American country with which it does. Moreover, by 2003, 85 percent of shoe manufacturers in Mexico had shifted operations to China. Sony, NEC, and Kodak shut down their Mexican operations and moved them to China. Twenty of Mexico’s leading economic sectors that export to the United States face competition from Chinese exporters.

In short, Mexico’s relations with China have risen in salience but also in conflict. Mexican membership in NAFTA and the size of its domestic market make it important to China. The Fox administration, however, is Latin America’s only government that shows recurrent, if at times easily avoidable, conflict with China.

Venezuelan President Hugo Chávez’s courtship of China is Latin America’s most ardent. Speaking in Beijing in December 2004, Chávez claimed that his own “Bolivarian Revolution” is rooted in the ideology of Mao Zedong; Chávez unilaterally labels Venezuela’s relations with China as an “alliance” and justifies his ties with China as an attempt to balance U.S. influence. The rhetorical buzz in Sino-Venezuelan relations spills over from hype and symbolism to the practical fiction into a frenzy of agreement-signing.

Nevertheless, the material results of this courtship remain modest. Verbal hyperbole exceeds other forms of reality. Notwithstanding Chávez’s multiple visits and high rhetoric, Sino-Venezuelan trade still ranks seventh in importance to China in Latin America. In 2003, China accounted for only about 2 percent of Venezuela’s imports and exports; and Venezuelan petroleum sales to China represented only about 1 percent of China’s petroleum imports. Most Venezuelan oil reserves are
heavy crudes, which is low-grade and sulfur-rich oil. Most Chinese refineries cannot generate gasoline and heating oil from such petroleum, which is why China imports so little of it. Building or upgrading refineries to refine such heavy crude in China would take time and be very expensive. Shipping Venezuelan petroleum to China is expensive, no matter where it is refined, and it takes forty days for such petroleum to reach China because oil supertankers are too large to transit the Panama Canal.

In short, Brazil and China have much to gain from their relationship, and they have developed it effectively. Mexico remains unclear about how it wishes to relate to China, and thus its bilateral relationship is unsatisfactory. Hugo Chávez has personalized his conduct of Venezuela’s foreign policy and has little success to show for it in relations with China in part because China has also chosen to keep its distance.

Conclusion

U.S.-Latin American relations gained much since the mid-1980s and those gains remain strong. Outside Cuba, no Latin American country is under dictatorship. Every Latin American country has opened its economy and fostered its economic relations with U.S. firms—even Chávez’s Venezuela and Castro’s Cuba. Latin American counties re-oriented their economies toward freer markets and, with fits and starts, performed better in the 1990s than in the 1980s and, after overcoming the recession and financial crises that preceded and followed 2000, are growing again. China’s economic role in Latin America has abetted this economic growth, to general gain. Civil and international wars ended in Central America, and Peru defeated a major insurgency. U.S.-Latin American cooperation over security issues of importance to the United States is strong and, in some respects, as with Colombia, Cuba, and Mexico, improved under the current Bush administration. Southern South American countries have settled many disputes and some created a zone of peace. Latin American independent action in international affairs generally serves these countries well and it also serves their relations with the United States.

Two topics cloud U.S.-Latin American relations. One is the varying capacity of Latin American states to manage their international relations professionally. The other has been the narrower U.S. foreign policy agenda—more focused on security issues outside the Americas and less attentive to the multilateral management of common concerns—that has made it more difficult for Latin American countries to build on a strong record of improved relations with the United States.

The United States and Latin America: Security and Energy

Arturo Valenzuela, Ph.D.
Director, Center for Latin American Studies
Georgetown University

Executive Summary

Latin America is at a critical crossroad. Twenty-five years after the onset of the “Third Wave of Democracy” in the Western Hemisphere, elected governments continue to hold sway while pursuing open market policies and adhering largely to orthodox fiscal and monetary policies. Civil wars, authoritarian governments, and statist policies, which contributed to economic stagnation and hyperinflation, are unlikely to return. And yet, these important gains are threatened by the low quality of democracy, limitations to the full implementation of the rule of law and a continued lack of competitiveness that undermines the prospects for future growth and the resolution of deep social inequities. A critical element in Latin America’s competitiveness is its ability to meet the challenges of globalization and harness its enormous potential for exporting the raw materials required by an expanding global economy.

The United States has vital interests in the Western Hemisphere. Political instability, weak governments, and underperforming economies engender security threats in the form of drug trafficking, organized crime, piracy, contraband, and illegal migration, while depriving the United States of valuable markets and critical raw materials. Of particular importance is the supply of energy. The Western Hemisphere plays a critical role today in meeting U. S. energy needs, and that role will become even more important as the United States seeks to satisfy its energy requirements in the face of dwindling domestic production.

Despite these stark facts, however, U.S. policy toward the Hemisphere is an afterthought driven by ad hoc measures and reactive responses to crises that are frequently inept and often driven by bureaucratic politics or domestic political considerations. In other words, Latin America policy is not formulated and implemented with strategic considerations aimed at ensuring the advancement of U.S. national interests. Nowhere is this clearer than the failure to appreciate that the conduct of Latin American policy has enormous implications for United States energy requirements over the next quarter century and that energy is a key to the developmental aspirations of Latin America.

To this end the United States must urgently develop a coherent set of policies to address the investment, regulatory and foreign policy dimensions of energy policy in the Americas as part of a broader, more coherent articulation of U.S. interests and foreign policy imperatives. This means rethinking how the U.S. and private multinational firms can work with states that own resources and state corporations that exploit them in order to generate the critical investments that the energy sector needs to assure adequate production and distribution. This also implies a reevaluation of how best to craft the political and regulatory framework to meet local political realities and maximize energy output, leading to an energy dialogue aimed at generating investment and creat-
ing viable regional energy networks. Finally it requires a more sophisticated and nuanced policy toward the Americas generally that takes seriously the importance of the Western Hemisphere to fundamental U.S. interests.

**Latin America at the Crossroads**

After the Cuban Revolution in 1959, only three countries in the Americas—Colombia, Costa Rica and Venezuela—avoided military rule. Central America was rocked by civil conflicts that began in Guatemala in 1954 and continued well into the 1980s with open conflicts in El Salvador and Nicaragua. During that decade the hemisphere’s debt crisis led to serious economic reversals in most countries and marked the death knell of the already faltering state-led import substitution development policies.

The failure of authoritarian regimes to address economic crises, combined with the end of the Cold War, opened an unprecedented era of elected governments in the Americas. Whereas military coups accounted for over forty percent of changes in government from 1930 to 1980, in the last fifteen years Haiti, in 1991, has seen the only classic military coup whereby civilian authorities were replaced by a military junta. New democracies took on the difficult task of implementing far-reaching economic reforms that involved the implementation of macroeconomic stabilization policies and structural adjustment policies that reduced the size of the state through privatization and deregulation, while reducing tariff barriers and opening markets.

Considerable progress was made as repeated crises of governance were generally resolved through constitutional means, budget and current account deficits were pared back and foreign investment helped spur growth. At the same time new democracies went a long way toward resolving serious international disputes that periodically threatened the peace, notably resolution of long-standing boundary disputes between Chile and Argentina and Peru and Ecuador. Similar disputes in Central America, while not approaching the degree of finality as those mentioned, also receded as leftist Hemispheric diplomacy succeeded in replacing maritime disputes with the imperatives of seeking integration and joining together in a Free Trade Agreement with the United States.

Argentina, Brazil and Cuba’s decision to sign the Thaeleco Treaty also signaled the will of the nations of the Americas to abandon nuclear weapons programs and sign on to international nonproliferation protocols. Ethnic strife in the Hemisphere, whether in southern Mexico, Guatemala, Ecuador or even Chile, while serious, also showed that the Western Hemisphere (with the exception of Canada) is the only continent in the world where ethnic or linguistic identities are not coincident with ideological demands, that is, demands to create separate sovereign nations to satisfy subnational loyalties, a volatile phenomenon that drives much of the unrest and fuels terrorism in the Post-Cold War World.

Unfortunately, first-generation reforms implemented in a context of institutional weakness proved insufficient in most countries in generating lasting growth, particularly when countries were also buffeted by the Mexican, Brazilian and Argentine financial crises that contributed to diminishing growth rates in the late 1990s and three years of the new century. Except for Chile, most countries of the region saw per capita income levels continue to decline adding to a climate of social unrest and disillusionment with the performance of fledgling democracies. Two of the three countries that had avoided military rule entered into full-fledged crises as income levels collapsed in Venezuela leading to the collapse of traditional parties and the rise of populist and increasingly authoritarian rule. In Colombia the shift of cocaine cultivation and production from other countries in the Andean region exacerbated the challenge of armed guerrilla and paramilitary organizations that came to rely on drug income for survival, although U.S. support and strong leadership helped reverse that trend.

Bolivia and Ecuador, after a period of significant progress, faced increased unrest from disaffected political elements and marginalized indigenous groups. For the first time in Bolivian history, after four successive presidents had turned the region of power over to elected leaders from opposition forces, a president of Bolivia was not able to complete his term in office, a development that scuttled prospects for developing gas exports that are critical to the country’s prospects for overcoming poverty and underdevelopment. In Ecuador the last three presidents have not completed their constitutional terms, and it is hard to envision a pattern of successful democratic rule in the near future. In Peru, President Toledo appears likely to finish his term of office—but institutions remain weak as the president’s own popularity levels have remained extremely low.

This account has stressed the particular challenges faced by the Andean region to understand the overall picture in Latin America is not uniformly negative. Indeed, considerable progress has been made in Central America where civilian governments were a rare phenomenon in the past and Mexico abandoned a long history of one-party rule to become a competitive democracy. leftist governments of different stripes made significant progress in Chile and Brazil in consolidating democratic institutions and setting the economies on track. Chile in particular has become a model in the third world of a country that has grown its economy, reduced poverty and successfully embraced the challenges of globalization through an aggressive policy to promote exports and trade and has become an export powerhouse.

Whereas in the 1960s coffee represented 60% of all exports, today Brazil exports airplanes and a broad range of goods, with coffee ranked sixth. Over the next two decades Brazil is likely to overtake the United States as the largest agricultural producer in the world.

Latin America, therefore, must be understood increasingly as a differentiated region with considerable progress in some countries while others lag behind. At the same time it should be noted that most countries in the region have continued to pursue disciplined fiscal and monetary policies and that shifts in the global economy, particularly the rise of China and India in Asia, have helped strengthen Latin American exports contributing in 2004 to the best growth rates the region has seen in a quarter of a century. The durability of these trends is still very much open to question, however, because of the significant deficits Latin America faces in infrastructure development, sources of energy, education and the strengthening of institutions of governance and the rule of law.

United States policy played a key role in the positive trends seen in the Hemisphere in the Post-Cold War era. Strong rejection on the part of U.S. authorities to unconstitutional seizures of power helped strengthen the growing hemispheric consensus in favor of elected governments while empowering hemispheric institutions such as the Organization of American States (OAS) play a lead role in the defense of democracy. U.S. support and encouragement of free trade agreements in North and South America helped shift the tide toward more open economics and economic reforms. The Summit of the Americas’ process provided a framework for strengthening and developing a Hemispheric-wide agenda that emphasized cooperation and mutual respect. Support for Colombia in counter-drug efforts helped reverse a negative tide in the third largest country in Latin America. But, partisan divisions in the United States over matters such as Haiti policy, combined with a neglect of hemispheric priorities with and after the collapse of the Argentine economy and 9/11, have contributed to the sense of drift in the region. Mistrust in crisis management in Argentina, Haiti, Bolivia, and Venezuela and in the selection of the new Secretary General of the Organization of American States contributed to a growing lack of confidence in U.S. leadership that has also been affected by strong disagreements in the U.S. role in the Iraq war, and a sense that the Hemisphere is not a priority for the world’s superpower.

**Energy and Security in Hemispheric Relations**

In its far-reaching study of the state of the world in the year 2020, the National Intelligence Council notes that global economic growth and particularly the growth of India and China will
increase demand for energy, which is likely to grow by 50% over the next fifteen years, in contrast with a 34% growth between 1980 to 2000. As much as 80% of growth in demand will have to be met by nonrenewable energy sources, like petroleum and natural gas, as nuclear energy is likely to decline and renewable energy sources such as solar and wind energy will account for only about 8% of total supply. These energy sources should meet global demand provided that substantial investments are made in areas of the world that pose significant economic and political risks, particularly the Middle East. What is at times overlooked is that after the Middle East, Latin America has the second largest global production capability and its supply of energy will exceed demand for several decades, enabling the region to be a net energy exporter. This explains why both China and India are aggressively looking for sources of energy in the Western Hemisphere along with their growing appetite for commodities of all stripes. Both countries were recently involved in a bidding war for the purchase of Canada’s Encana holdings in Ecuador, with the Chinese appearing to best their Indian competition.

<table>
<thead>
<tr>
<th>World Oil Reserves (billion barrels)</th>
<th>1/10/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Oil and Gas Journal</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>665.6</td>
</tr>
<tr>
<td>Africa</td>
<td>77.4</td>
</tr>
<tr>
<td>Western Hemisphere</td>
<td>315.6</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>32.7</td>
</tr>
<tr>
<td>Western Europe</td>
<td>18.1</td>
</tr>
<tr>
<td>Eastern Europe/FSU</td>
<td>79.4</td>
</tr>
<tr>
<td></td>
<td>1212.8</td>
</tr>
</tbody>
</table>

*Note: Includes Canada’s oil sands and bitumen reserves*

In this picture the United States’ position is a difficult one. With 4% of the World’s population, the United States consumes 25% of its energy. According to the International Energy Agency, over the next two decades energy production in the United States will stagnate at approximately 9 million barrels a day (MBD), meaning that an expanding U.S. economy will require the doubling of U.S. imports, thereby creating oil import deficits of close to 70%. In 2005, U.S. consumption was 20 MBD; in 2030 it is anticipated to reach 30 MBD. The United States already depends on the Western Hemisphere for 50% of its oil imports, 30% from Latin America and the Caribbean. Canada is its largest individual country supplier, followed by Saudi Arabia and Mexico, which jockey for second or third place, and Venezuela.

According to Ramon Espinosa of the Inter-American Development Bank, if current trends continue, both Mexico and Canada will see a decline of production and exports to the United States, while also experiencing increases in demand for crude. Although Canadian reserves have increased with the inclusion of oil sands, Mexico’s reserves have declined significantly from about 50 billion barrels in 1995 to 12 billion in 2003 as exploration has waned. Cantarell, Mexico’s largest oil field, which accounts for 60% of the country’s total production, is nearing premature depletion.

In the absence of increased exports in North America, the United States’ reliance on extra Hemispheric oil imports, primarily from the Middle East will increase to between 55 and 75% of all total imports in twenty years. Unless, that is, the United States can turn to the Western Hemisphere for more of its energy needs. As Equinor argues, this is not a sensible technically. The Andean countries, including Venezuela, Colombia, Ecuador, Peru and Bolivia, which today account for 2/3 of the oil production of South America, but only 1/3 of its consumption, could double their exports while the rest of Latin America’s production could be increased to achieve self-sufficiency. By doubling its production from 10 MBD to 20 MBD South America could cover half of the increased import needs of North America that are projected to rise from 10 MBD in 2005 to 20 MBD by 2030. This, or course not only would satisfy North American demand but provide critical resources for the Andean countries to increase their overall competitiveness by improving educational levels and infrastructure, while addressing key social problems.

U.S. demand for natural gas will increase even faster by 2030, with close to 70% going to electricity production. This will require the United States to import 30% of its gas consumption at a time when Canada’s net exports to the United States will decline. Latin America, and more particularly the Andean region and Trinidad and Tobago in the Caribbean do have the reserves to potentially meet U.S. requirements. Today, Trinidad and Tobago supplies about 2/3 of the U.S. liquefied natural gas (LNG) market, some 2.4 percent of total natural gas imports and 0.4 percent of total natural gas consumption.

Latin America has become one of the fastest growing markets for natural gas in the world and at a 150% growth rate (compounded rate of about 5% per year) is projected to have the highest growth of any region over the next twenty years, provided that neighboring countries succeed in developing better integrated networks and more harmonized regulatory criteria. In order to supply the Southern Cone as well as increase exports to the United States, production will have to increase significantly, particularly in Bolivia which has the second largest reserves of gas in South America after Venezuela and two and a half times the reserves of neighboring Peru.

The Challenges Ahead

Though the potential is clearly there, an increase in energy exports from Latin America and the Caribbean is far from certain. The region will have to overcome a deterioration of its energy infrastructure by generating increased foreign investment. However, foreign direct investment (FDI) to Latin America declined from 3.2% of GDP in 2001 to 1.5% in 2004, whereas it increased in Asia, particularly China, from 1.2% to 1.7% of GDP during the same time frame. The sharp downturn of foreign investment came after the collapse of the Argentine economy that also left in shatters many of the contracts that had been signed with international investors, particularly in the power generation field. The crisis, rather than being contained in Argentina, affected other countries. Although there are signs of improvement, portfolio investment and banking credit has also been weaker in Latin America than other emerging market areas. It is estimated that the region will require anywhere between $120 and $200 billion of investment in the oil sector alone to generate the desired output.

Mexico, with crude oil reserves that are exceeded only by Canada, the United States and Venezuela in the Western Hemisphere, has seen its reserves dwindle through lack of investment. PEMEX, the state oil company, is required to allot over 60% of its revenues to cover over 20% of the Mexican government’s expenditures. Although the Mexican Congress has recently approved a bill that will give the company additional revenues for exploration, they are hardly sufficient to cover the estimated $10 billion the company needs to maintain current production levels, let alone expand. The continued constitutionally prescribed restrictions on investments by private international firms in the Mexican energy sector will continue to hamper production possibilities in both the oil and natural gas sectors unless innovative solutions are found.

Bolivia, the poorest country in South America, is blessed with abundant natural resources. An international consortium of private firms was poised to invest over $1.5 billion in developing Bolivian gas fields for export as liquefied natural gas to markets in Mexico and California. But widespread protest from political groups opposed to the exploitation of Bolivian resources by foreigners scuttled the deal. Many Bolivians objected to plans to ship the gas through Chilean ports as an insult to Bolivian sovereignty since the Chilean territory belonged to Bolivia before the War of the Pacific in the mid-Nineteenth Century. The resulting unrest led to the forced resignation of the President and the cancellation of a project that the International Monetary Fund (IMF) and many others saw as critical to the nation’s ability to generate investment and growth. Peru, by contrast, with gas reserves less than
half of those of Bolivia has embarked on the ambitious Camisea project that will satisfy gas contracts in Mexico, though not be in a position to meet the gas needs of neighboring countries. Yet neither country will succeed in establishing energy as an important tool of national development until the countries of South America establish a strategy for viable energy integration.

Ecuador has a tortuous history of unreliable rules and regulations and tax disputes that are often bent to satisfy local interests to the detriment of international investors. In a climate of "judicial insecurity," as well as political instability, major international investors have been reluctant to commit additional resources to the development of Ecuador's promising oil fields. Canada's leading oil company has decided to sell its investments in Ecuador as Occidental Petroleum and other companies find themselves in increasingly tortuous legal battles that are driven by a combination of political posturing by nationalist groups and the financial interests of local elites.

Finally, Venezuela is producing half of the oil it did a decade ago. Although President Chavez has not threatened international oil companies, the government has increased royalty payments and it remains to be seen whether increased income will be allotted and translated into increased investment or will be used to support Chavez' domestic and international ambitions. Chavez' confrontational style in dealing with the United States and his open expression of his intention to try to divert Venezuelan oil to other customers in the world raises serious questions about the country's ability to attract the necessary investment to expand production.

Increased foreign investment will depend on changes in energy policy and improvements in the investment climate, stronger institutional and legal frameworks, improved regulatory capacity, and increased trust between investors and host countries. At the same time the region needs to develop standardized loss, regulations and transmission rates in an effort to create more integrated energy sectors to maximize efficiencies of scale. All of the above is premised on increased political stability, the effectiveness of government institutions, success in combating corruption and politicized judiciaries and the capacity to forge policy consensus. Policy consensus can only be achieved by abandoning traditional notions of resource nationalism and by persuading indigenous populations that energy exploration and production can benefit their communities while safeguarding the environment.

New Directions for U.S. Policy

United States policy towards the Hemisphere has paid scant attention to energy imperatives outside of the specialized agencies dealing with the subject matter. It is rarely a central concern in the formulation of foreign policy priorities. Given its importance, the United States should initiate a new energy dialogue with the region, with particular focus on Mexico and the Andean countries. Such a dialogue cannot be based on the standard clichés of the past. It must recognize that resource nationalism has deep roots in history, often associated with the actions of the U.S. government or U.S.-based multinationals in the past. Rather than unrealistically demanding constitutional and policy changes that are unattainable, U.S. policy makers should work with regional leaders and organizations such as the Andean Development Corporation (CAF), the Inter-American Development Bank (IDB) and the Organization of American States (OAS) to come up with formulae that would permit foreign investment for energy development, while designing new mechanisms for regulation. The fact that a center-left government in Chile was able to maintain a nationalized copper industry, while opening investments to the private sector for exploration and production, and pursuing aggressive policies of export promotion that permitted greater social investment, signals that a Latin American country can seize the opportunities provided by globalization.

A new energy dialogue can help refocus U.S. policy in the Andes away from a dominant emphasis on drug eradication and interdiction, while focusing on a developmental strategy aimed at generating investment and growth. The underlying rationale for the investment cannot simply be the supply of energy for North America, but the generation of resources to meet the development and employment-generating objectives of energy exporting countries. To be effective, however, such a dialogue must be part of a more sustained engagement with Latin America that is framed by strategic considerations and acknowledges that the United States has vital interests in the Western Hemisphere.
The North American Opportunity

Robert A. Pastor, Ph.D.
Vice President of International Affairs
American University

The first leaders that almost every U.S. President since Dwight Eisenhower has met after taking office were the President of Mexico and the Prime Minister of Canada, and the U.S. President met with them more often than with leaders of any other country—even Great Britain. While many Americans may take their two neighbors for granted, every President has recognized that over the long-term, no two nations can have a greater effect on the stability and prosperity of the United States than our two neighbors.

Despite this primal national interest, relations with our neighbors have rarely been very good and often have been strained. This is due to asymmetry—imbalance in power—between the U.S. and its two neighbors and to two other reasons. First, the agendas are mainly domestic, in which powerful U.S. economic interests—such as lumber and sugar—use their leverage to shape U.S. policy, overriding the interests of our neighbors. Secondly, Mexico and Canada are proud, middle powers that have pursued independent foreign policies, and when these policies diverge from the U.S.—for example, on Central America in the 1980s or on Iraq more recently—the U.S. finds ways to communicate its displeasure. As a result, to preserve their autonomy and defend national pride, both Canada and Mexico have sought to keep their distance from the United States.

These elements have largely defined the dual-bilateral—U.S.-Mexican and U.S.-Canadian—relationships in North America until the mid-1980s when Canada and Mexico opened their economies and subsequently initiated talks leading to the North American Free Trade Agreement (NAFTA). NAFTA, which came into force in January 1994, brought the three countries into an embrace for the first time in history. Despite misgiving, NAFTA succeeded in what it was designed to do. Its goal was to dismantle trade and investment barriers, and with some notable exceptions, it did so; and trade and investment nearly tripled among the three countries of North America, accelerating the pace of economic and social integration. Today, North America is the largest free-trade area in the world in gross product and territory. More than 50 percent of the trade that the three countries have with the world is with each other—a level of economic integration that is almost as deep in one decade as Europe’s is after five decades. Societal integration also advanced. Today, people cross the two borders nearly 500 million times each year, and immigration has brought to the United States about 25 million Mexicans—or about 25 percent of Mexico’s population.

While Mexico and Canada remain much more dependent on the United States than the U.S. is on them, the first and second most important trading partners of the U.S. and the two largest sources of energy imports are Canada and Mexico. While Americans view Europe and China as very important in trade, the United States exports nearly twice as much
to our two neighbors as it does to the 25-nation European Union, and nearly four times as much as to Japan and China. North America, in brief, is no longer just a geographical expression. It has become a formidable and integrated region.

North America’s Agenda for the Second Decade

There are important areas where the three governments have not complied with NAFTA—notably, trucking, sugar, and softwood lumber—and these have eroded trust. But the most serious failure of NAFTA is not what it did, but rather what it omitted.

- First, NAFTA was silent on the development gap separating Mexico and its two northern neighbors, and that gap has widened, with adverse effects both on migration and on the views of many in Latin America as to the capacity of free-trade agreements to deliver development.
- Second, NAFTA omitted immigration, and the number of undocumented Mexican workers in the United States jumped in the 1990s from about 1 to 6 million.
- Third, NAFTA expanded the market in North America but did not plan for externalities or market failures, such as the Mexican peso crisis. The three countries still lack a mechanism to coordinate macro-economic policy.
- Fourth, NAFTA did not even plan for success. The increased traffic in goods has been delayed because almost no new roads or border crossings have been built. As a result, the transaction costs of regional trade now exceed the tariffs that were eliminated by NAFTA. China can ship some goods more cheaply across the Pacific than Mexicans can truck goods across the border.
- Fifth, NAFTA did not address energy issues, a failure illuminated by the blackout in Canada and the northeastern United States in August 2003, and by the fact that energy-rich Mexico is importing 25 percent of its natural gas from the U.S.
- Finally, NAFTA did not address security, and it made the opposite mistake of the European Union, which created too many institutions. North America has no credible institutions, and so when North America was attacked on September 11, 2001, each of the three governments reverted to traditional responses. The United States acted unilaterally and virtually closed its borders, with devastating economic effects on its neighbors, and Canada and Mexico retreated to their usual ambivalence toward the U.S. The failure to pursue a unified approach to security threatens to cripple North American integration without assuring safety.

While some continue to debate the merits of NAFTA, these six issues represent the North American agenda for the next decade. The debate on NAFTA, in brief, is over. The debate on the future of North America should begin.

At the beginning of their terms, Presidents George W. Bush and Vicente Fox met and pledged to deepen their countries’ relationships with each other and with Canada. If they had succeeded, on September 12, the three leaders would have joined hands in the Rose Garden and announced that the previous day’s attack was against all of North America, and that they would respond together. Alas, that did not occur, and the divergent response combined with the inability of the governments to solve various problems led to a decided deterioration in relations.

To their credit, the leaders of the three countries tried again in Texas in March 2005 to reaffirm the importance of the trilateral relationship and to launch the “Security and Prosperity Partnership.” The initiative, however, is timid, not bold and dual-bilateral, rather than continental. Indeed, it seems little more than a bureaucratic, paper-writing exercise. If the leaders really understood the challenges that face North America and the opportunities to forge the most formidable, secure, and competitive free trade area in the world, they would have focused on the omissions of NAFTA described above and proposed a bold new program. Let us outline one here.

A Vision and a Plan

The Presidents of Mexico and the United States and the Prime Minister of Canada should begin by articulating a vision of a North American Community where each state recognizes that instability or economic recession within in one will affect the other, and at the same time, each benefits from the others’ success. When a neighbor’s house burns or is vandalized, then all the houses in the community are in danger. When the value of a neighbor’s house rises, this has a positive effect on the other homes. These are the two sides of a vision of a North American Community.

Increasing interdependence requires continental plans and institutions to ensure that the publics benefit from a more integrated but less regulated market. The three governments need to fashion a new framework that will make the continent more secure, competitive, and just. Transforming that vision into policies will require leadership, institutions, and specific goals.

1. Security. The best way to assure the security of North America is not at our borders with Canada and Mexico and not by defining “security” solely by fences, but rather by forging a consensus with our neighbors to build a “North American Security Perimeter,” which would be protected by Canadian, Mexican, and U.S. officials working together on the same team, using the same procedures and exclusion lists, sharing intelligence, and concentrating on real threats. This would supplement, not eliminate existing border protection against illegal movements of people and goods. We should unify the two “smart border” agreements by harmonizing exit and entry policies, sharing data about the entry and exit of foreign nationals, and jointly inspecting container traffic entering North American border ports.

2. Deepening Economic Integration. “Rules of Origin” have become such an impediment to trade that many companies prefer to pay tariffs than to delay while their products are tested to see what percentage is assembled in North America. The only way to eliminate rules of origin is to negotiate a Customs Union. This would not be easy, but it would not be harder than negotiating NAFTA, and it would benefit be to create a seamless North American market. By reducing inspections of goods, it would also permit officials to concentrate on drugs, terrorism, and illegal migration.

Two additional steps are needed to give an advantage to North American business and labor. The three governments should recognize that the continental market makes the use of trade remedies (countervailing duties and anti-dumping) obsolete, and they should eliminate them and create a North American Competition Commission to prevent predatory pricing and bar trade sanctions within North America. In addition, the three governments need to establish a North American Regulatory Commission that would promote shared goals in defending health, the environment, and workers but also, at the same time, eliminate unnecessary regulatory differences. For example, cabotage restrictions add costs by prohibiting foreign shippers from carrying a domestic load. Differences in road and rail rules add costs without enhancing safety. The U.S. prohibits imports of pharmaceuticals from Canada when they are produced by U.S. firms, sometimes in the U.S. If North American scientists made decisions on road and rail disease, Canadians might accept that the policy is not made by U.S. cattle farmers.

3. Narrowing the Economic Divide. Roughly 90 percent of all migrants leave jobs to come to the United States. What this means is that they seek higher income, and therefore none
of the immigration proposals will reduce the flow of illegal migration to the United States until the income gap begins to close. The tragedy is that the gap is widening because the implicit development model of NAFTA encourages foreign investment at the border, which serves as a magnet to attract labor from the center and the south of Mexico. Within a year of their arrival at the border, most Mexicans go north to increase their wages by as much as ten times. Europe demonstrated that the gap could be narrowed significantly in a relatively short period with good policies and significant aid invested in infrastructure to connect the poorer countries.

The three governments should establish a North American Investment Fund that would invest $20 billion per year for a decade in infrastructure connecting the south and center of Mexico to the United States. Mexico should provide half of the funds through a gradual increase in its tax rate, raising tax revenues as a percentage of GDP from about 13% to about 18%, still the lowest of the OECD (Organization for Economic Cooperation and Development) countries. The U.S. should contribute $9 billion and Canada, $1 billion, and the Fund should be administered by the World Bank. The funds will not be effective, nor would the U.S. or Canada contribute, unless all were confident that Mexico would make good use of it by adopting needed reforms. But instead of a quid-pro-quo, the three governments should define a community of interests in which each party would contribute in different ways to close the income gap. Most Mexicans understand that their economy cannot grow without labor, fiscal, energy, and electricity reforms, and if the solidarity of its two neighbors could provide the legitimate added weight that would assist Mexico’s leaders to undertake the reforms, then that would also influence the U.S. and Canada to contribute. Such investment would improve Mexico’s competitiveness and, as it narrows income disparities, it will reduce the motive for migration. For North America’s second decade, there is no higher priority than establishing the community of interests and the North American Investment Fund to narrow the income gap.

4. Building Lean and Effective Continental Institutions. NAFTA has failed to create a partnership partly because the three governments have not changed the way they deal with one another. Dual bilateralism—U.S.-Mexico and U.S.-Canada—continues to define the relationship and irritate the weaker side. Adding a third party to the bilateral disputes vastly increases the chance that rules, not power, will resolve problems. The tripartite approach needs to be institutionalized with a new North American Commission or Advisory Council. Unlike the sprawling and intrusive European Commission, the Commission or Council should be lean, independent, and advisory to the governments, composed of 15 distinguished individuals, five from each nation. Its principal purpose is to prepare a North American agenda and proposals for the three leaders to discuss at annual summits and to monitor the implementation of decisions. A second institution should combine the U.S-Mexican and U.S.-Canadian inter-parliamentary groups into a North American Inter-Parliamentary Group. A third institution should be a Permanent Tribunal on Trade and Investment. NAFTA established ad hoc dispute panels, but it has become difficult to find experts who do not have a conflict of interest. A permanent court would permit the accumulation of precedents and lay the groundwork for North American business law.

5. Proposing North American Plans. The three governments are effective at staffing their leaders but not at thinking continentally. The North American Commission should propose ideas for addressing functional problems on a continental basis. For example, it should propose a plan for North American Infrastructure and Transportation to facilitate and expand trade; a plan for improving education and helping the citizens of all three countries appreciate their neighbors’ common values and differences; a plan for macroeconomic policy coordination and the possibility of a single currency. Each plan would include options for the Summit meeting. Other ideas:

a. A North American Passport. To facilitate frequent travelers, and also to encourage citizens to think of themselves as more than their national identities, the three countries should develop a secure biometric North American passport. Only those who voluntarily seek, receive, and pay the costs for a security clearance would obtain such a passport to cross borders in a fast lane.

b. A North American Immigration Preference. The freer movement of labor between the United States and Canada is possible and desirable because of the roughly equal income and standard of living. This is not possible with Mexico because of the huge income gap, even though Mexico is, by far, the largest source of both legal and illegal migration to the United States. But on a separate track, the U.S. and Mexico should expand legal, temporary migration, and facilitate mobility for professionals, while restricting illegal migration.

c. Education/Exchanges/Research Centers. The European Union spends about $10 million each year in the United States to promote research centers on the EU, but the three North American governments provide no support for North American studies. The United States supports Area Studies for almost every region except North America. It’s time for each of the three governments to encourage the establishment of Centers for North American Studies and to provide scholarships for students and faculty exchanges.

6. Reorganizing the U.S. Government. Canada and Mexico have long organized their governments to give priority to their relationships with the United States. Washington alone is poorly organized to address North American issues, and this partly explains President Bush’s failure to deliver on his promises to his neighbors or to propose any serious initiative. The problem is simply that specific domestic interests almost always override our national interests in building a community. To balance those domestic interests with the national and continental interest, the U.S. needs to appoint a White House Advisor on North American affairs, and that person would chair a Cabinet-level Committee on North America. No president can forge a coherent or far-sighted policy toward North America without such a wholesale reorganization.

Feasibility and Desirability

What are the prospects for approving these initiatives? At this moment, zero. The United States is preoccupied by Iraq, an embarrassing double deficit (fiscal and current account), and natural disasters; and Canada and Mexico are headed into national elections. But the question of feasibility is the wrong one; the issue is whether it is in the interests of the three nations of North America to form a Community that would help them escape the irritations and burdens of the past and permit them to compete against Asia and Europe and serve as a model for integrating the developing world.

The proposals described above are not "incremental." Like the Marshall Plan, the goals are grand: (1) secure the continent against terrorism; (2) make North America more competitive; (3) narrow the income gap between Mexico and its neighbors; (4) supplement free-trade agreements with targeted grants in infrastructure so that middle-income countries will clamor to join; (5) address chronic problems, like softwood lumber, with new institutions and plans; (6) promote continental approaches to transportation, education, the environment, and other areas; and (7) change the relationship among the three countries and publics by help-
ing each to supplement their national identity with a North American consciousness.

Surveys in all three countries suggest that the public might be ready for such a comprehensive initiative. An October 2005 poll taken in all three countries by Ekos, a Canadian firm, found that a clear majority believes that a North American economic union will be established in the next ten years. The same survey found an overwhelming majority in favor of more integrated North American policies on transportation, the environment, and defense (including a North American security perimeter), and more modest majorities in favor of common energy and banking policies.

A North American Community is an idea so compelling that it will, sooner or later, emerge as a frontier issue. It awaits leaders to explain why it is in the interests of all three countries, to describe the steps and institutions needed to transform the ideas into actions, to mobilize the means to achieve the goals, and to provide the energy to redefine the possible. The United States had that energy at the turn of the 20th century. China has it now. North America could have it tomorrow.

---

**U.S. Policy in Latin America**

**CONFERENCE PARTICIPANTS**

Punta Mita, Mexico  
January 8-13, 2006

**Members of Congress**

Representative Howard Berman  
and Janis Berman

Senator Barbara Boxer  
and Stewart Boxer

Representative Susan Davis  
and Steve Davis

Representative Norm Dicks  
and Suzanne Dicks

Representative Sam Farr  
and Shary Farr

Representative Gene Green  
and Helen Green

Senator Tom Harkin  
and Ruth Harkin

Representative Sander Levin  
and Victoria Levin

Representative Nita Lowey  
and Stephen Lowey

Senator Richard Lugar  
and Charlene Lugar

Representative Edward Markey  
and Susan Blumenthal

Representative George Miller  
and Cynthia Miller

Representative Janice Schakowsky  
and Robert Creamer

Representative Tom Udall  
and Jill Cooper Udall

Representative Roger Wicker  
and Gayle Wicker

**Scholars**

Sergio Aguayo  
El Colegio de Mexico

Jorge Dominguez  
Harvard University

Nora Lustig  
Tecnologico de Monterrey

Cynthia McClintock  
George Washington University

Robert Pastor  
American University

Arturo Valenzuela  
Georgetown University

**Project Consultant and Rapporteur**

Julia Swig  
Council on Foreign Relations

**Foundation Observers**

Clemencia Muñoz-Tamayo  
W.K. Kellogg Foundation

Marta Tellado  
The Ford Foundation

**Moderator**

Dick Clark  
Director, Congressional Program  
The Aspen Institute
U.S. Policy in Latin America

CONFERENCE AGENDA

Punta Mita, Mexico
January 8-13, 2006

New Political, Economic and Social Conditions in Mexico and Latin America and Their Relevance for U.S. Policy

Cynthia McClintock, George Washington University

Twenty years ago, Latin America began a rapid transition to democracy. After decades of authoritarian rule, the armed forces returned to their barracks; political parties and civil society strengthened, diversified and became more independent; and economies liberalized, bringing in foreign investment and the promise of a more equitably shared, prosperous market democracy. But even while voting in elections, most of Mexico’s and Latin America’s citizens remain excluded from their nations’ political and economic life. The forces of the free market and democracy have not reinforced one another as was hoped. But the significantly more open nature of society has given voice to social forces now increasingly organized and openly rebelling against elected governments and traditional elites, especially in the Andean region. Disillusion with democracy is palpable across class, and there is new talk of the rise of populism, a throwback to the authoritarian days of the Cold War. Is the left coming to power in Latin America? Where and why? If so, what does “left” mean in today’s international context? What is populism? How do these new trends affect American interests?

An Analysis of Mexico’s Presidential Election

Sergio Aguayo, El Colegio de Mexico

Six years ago Mexico began an historic transition from 70 years of authoritarian, one-party rule. Since then, hopes for a democratic political process have been dampened by legislative and intra-party stagnation, weak presidential leadership, and an increasingly brittle social fabric shorn by drug and gang violence and rampant poverty. In July, 2006, the Mexican electorate will return to the polls. A three-way race between candidates from the governing party (PAN), the party that historically ruled the country (PRI), and the party of the left (PRD), will define the next 6 years of Mexico’s political and economic development, as well as the course and substance of integration within North America. Who are the candidates? What is their history, and what ideas and perspectives do they represent? What will the election, both its process and outcome, mean for Mexico, the United States, bilateral relations and Mexico’s overall foreign policy?

Latin America’s Growing International Independence and Implications for the U.S.

Jorge Domínguez, Harvard University

How important is China in Latin America? What is the significance of China’s new trade and investment agreements in South America, and of the region’s new trade ties with the European Union?
The end of the Cold War opened Latin America's doors to the world. Although the United States remains the region's most important trade partner, Latin America no longer looks exclusively to the United States for political or diplomatic leadership. The United States is clearly witnessing the beginning of the end of an era of exclusive hegemony in Latin America, whether in the case of the struggle for leadership at the Organization of American States; Brazil's pursuit of a seat on the United Nations Security Council or its hosting of a summit between South America and the Middle East; Venezuela's efforts to diversify its petroleum and political diplomacy with China, India, Russia, Libya and Iran; Chile's activism among APEC nations and with the European Union; or the attempt within the region to create new trade and other sub-regional organizations. Should these efforts at greater independence be a cause for concern? How might the United States benefit or suffer from these developments? What might Latin America's international engagement look like ten years down the road?

Global Issues in Mexico and Latin America: Energy Exploration, Development and Exports and Implications for American Energy Security

Arturo Valenzuela, Georgetown University

Natural gas in Bolivia, Venezuela and Chile; oil in Mexico, Ecuador, Venezuela, Brazil, and Colombia; coal in Colombia and Venezuela. Combined with American oil imports from Canada, the United States relies on the nations of the Western Hemisphere for some forty percent of its energy imports. America's energy security and independence is the subject of concern as petroleum prices continue to climb and the world's current refining capacity reaches its limit. Latin America's energy resources—diverse, ample, and nearby—may well provide an opportunity for the United States to further diversify its reliance on oil from the Middle East, as well as an opportunity for economic growth for the region. Yet these natural resources are increasingly becoming a target of social protest and a victim of domestic politics on the ground. What is the story behind Bolivia's failure to make the most of its immense natural gas supplies? Why has petroleum in Venezuela been such a curse to that country's economic development and domestic politics? What are the domestic political obstacles preventing Mexico from taking better economic advantage of its petroleum reserves? Is there any approach to extracting these resources that might gain the support of indigenous populations in both Ecuador and Bolivia?

Opportunities for North American Cooperation: Mexico, Canada and the U.S.

Robert Pastor, American University

The United States faces three distinct but overlapping challenges in the areas of immigration, trade, and security in its neighborhood. Each problem has grown worse since September 11, 2001. America's policymakers, citizens and the private sector have been searching for answers to each challenge, still unsuccessfully, in part because these interrelated problems have been defined incorrectly and treated separately. The development gap between Mexico and its northern neighbors represents the key to breaking the barriers to deeper North American integration. What is a strategic framework for closing the gap? What political obstacles are in the way? Exactly how might a more prosperous Mexico enhance the security of the United States and reduce the seemingly inexorable flow of Mexican citizens to the United States? Other than development, what other areas are ripe for cooperation between Mexico, Canada and the United States?