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Rapporteur's Summary

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The Aspen Institute’s Congressional Program held its eighth conference on U.S. policy in Latin America in Guanacaste, Costa Rica, from November 27 through December 2, 2007.

Pamela Starr, Associate Director of the Latin America Initiative at the University of Southern California, opened the first session of the conference, "Mexico-U.S. Border Issues and Bilateral Relations." The United States’ relationship with Mexico is among its most important bilateral relationships in the world: Hitting the right notes with respect to the border, public health, energy, the environment, trade, migration, drugs, and the two societies’ growing cultural integration would represent an important accomplishment not only for the bilateral relationship but for U.S. standing in the rest of the Western Hemisphere.

Mexico has changed dramatically in the last twenty years, but because of the power differential between Mexico City and Washington, and because of political and economic divisions within the country, Mexico will remain a prickly partner for the United States. Geographically, Mexico is a hybrid nation, part of North America, but very much part of Latin America as well. A three-part transition is underway. Mexico is much more democratic despite a contested election in 2006; the economy is more open, vibrant and competitive, despite the persistence of oligopolies, poverty and inequality; and, in contrast to a history of distrust of the United States, Mexico recognizes the need for good relations with Washington in order to solve its own problems. Yet unlike President Vicente Fox, who believed that warm relations with the United States would produce desirable policy outcomes, such as a migration agreement, President Felipe Calderón, while pursuing cooperative relations on a number of bilateral issues will maintain an outwardly correct, even cool posture. With a weaker domestic political base, Calderón wishes to avoid irrational expectations and large disappointments, anticipating that a good working relationship will lead to friendship, rather than vice versa.

Migration, and the absence to date of comprehensive immigration reform, will remain an irritant in the bilateral relationship. This is especially the case because of the perception in Mexico that whatever the United States does with respect to migration—cracking down, easing up—is intentional rather than a result of the lack of progress on policy debates at home. To the extent the United States makes little or no progress on migration reform, and the crackdowns continue, Calderón will be compelled by domestic forces to be more vocal about his responsibility to protect Mexicans working in the United States. Should tensions of migration escalate, they will make progress on other fronts more difficult.

In that light, the Merida Initiative, a proposal generated by the Mexican and U.S. governments for $1.3 billion of assistance over three
years to help Mexico address its drug-related crime networks, represents a crucial opportunity for the United States to demonstrate to Mexico a cooperative disposition, rather than reinforce the expectation that the United States only carries out policies toward other countries on its own terms.

Discussion followed regarding the extent of Mexico's democratic consolidation and economic performance; its willingness and ability to control migration to the United States; and the content, purpose, and merits of the Merida Initiative.

Mexico, it was argued, retains "archipelago" of authoritarianism: The 2006 contested election left a solid third of the population, the democratic left, enormously skeptical of whether the country's institutions, political class, and economic power are prepared to genuinely let all Mexicans have a voice in the political process. The economy likewise has grown but only anemicly. Reform in Mexico remains bound up in the political and patronage system best exemplified by the teacher's union. This powerful institution was critical to delivering the election to President Calderón, but continues to operate without democracy or transparency and seems to focus more on retaining its power than educating Mexican children.

Javier Corrales, Associate Professor of Political Science at Amherst College, led the second session of the conference, "Venezuela: National, Regional and Global Pretensions." Venezuela under President Hugo Chávez has been described in popular anti-Chávez blogs as a state embracing "narco-petro-communism." Corrales addressed the merits of this description. The political system in Venezuela is not communist, but rather an acute version of Latin American populism, with populism defined as a pact between presidents and disenfranchised groups against traditional groups, parties, and other representatives of civil society. Unlike previous instances of populism in Latin America, the Venezuelan version is not going to run out of money thanks to its large petroleum reserves, the largest in the world outside of the Middle East. It isn't only Venezuela's poor who are benefiting from the regime's largesse via previously absent social services and other programs, but also some key elements of the country's elite and privileged, who, via state contracts and a commercial boom, are thriving. In conjunction with Iran and other OPEC members, it is expected that Venezuela will pursue a policy of maximizing oil prices, in part because China, despite massive energy consumption requirements, is not likely to become a significant importer of Venezuelan oil. The United States continues to purchase approximately half of Venezuela's oil exports, which amount to roughly 12 percent of total U.S. oil imports. Venezuela has become a favored destination for drug dealers, with illegal drug-related activities skyrocketing as Venezuela's cooperation with the DEA and FBI has atrophied in recent years.

In foreign policy, Corrales argued that Venezuela is pursuing the illusion that the regime is interested in development. In conjunction with Cuba, Venezuela seeks security and political cooperation but also important programs that directly benefit the poor, Chávez's anti-Americanism, it was argued, is a result of his own shortcomings, to be sure. But whether he is purchasing bonds from Argentina, or providing housing, medical services, and other social programs around Latin America and the Caribbean, Chávez has developed a unique and successful brand of soft power, and the United States will have to find a way to compete.

A discussion followed concerning U.S. strategic interests with respect to Venezuela. By comparison to Iran and North Korea, for example, Venezuela does not pose a security threat to the United States. That is why the United States' current low-key approach to Venezuela makes sense. Still, it would be a mistake to ignore two dynamics. First, is Iran supporting Islamic fundamentalist groups in Latin America via Venezuela? To date, little concrete evidence suggests as much. Another dimension to monitoring is whether Venezuela is seeking to incite an Iran-U.S. confrontation.

In the subsequent discussion, it was argued that Chávez has resonance because he has put the social agenda on the hemisphere's radar screen, while the United States appears to have turned a cold shoulder to issues of social exclusion, poverty, and inequality. Official U.S. assistance to Latin America, even including several hundred million dollars in still undispersed but committed funds to a half dozen countries in the region, plus security assistance through Plan Colombia, cannot compete with the $9 billion in direct assistance, including bond purchases, that Venezuela plans to spend in 2008. The United States is caught in a bind in which Latin America has grown accustomed to seeing the United States as a source of "hard power" and no longer expects the United States to deliver on the "soft power" dimensions that once accompanied its foreign policies.

Likewise, with respect to Hugo Chávez, the United States has been pulled into an historic pattern of demonizing actors that defy the United States. But Venezuela's behavior is consistent with that of other resource-rich states with sovereign funders-China, Iran, Russia, for example—that can operate on the global playing field with ample resources and nominal democratic checks internally. Oil and democracy, one participant suggested, simply don't mix. The playing field the United States faces may no longer be a level one, but demonizing Chávez won't compensate for a global imbalance in strategic resources. Indeed, Chávez' anti-Americanism is rooted in much more than just an attempt to deflect his own mistakes or shortcomings.

Within the Western Hemisphere, Venezuela poses a challenge to South American integration. What Brazil's president Luiz Ignacio Lula da Silva initially saw as an ideological affinity for Chávez has since become a liability for Lula within Brazil and with Brazil's neighbors. Chávez has provided indirect support for Bolivia's nationalization of Brazilian gas investments there, unleashed an unprecedented arms race, and has played a divisive role within...
are amassing vast sovereign funds, whether Russia, Saudi Arabia, or Venezuela itself. Such dollar investments in foreign aid may increase on the margins, and can surely be targeted more strategically. Ultimately, an array of policies, including cultural, educational, security and diplomatic initiatives, that engage multilateral institutions can recover lost ground for the United States. Policymakers must bear in mind, however, that the farther south one goes in the region, the more independence the nations of Latin America will continue to demonstrate, bilaterally and globally.

Peter Hakim, President of the Inter-American Dialogue, led the final session, "Challenges for U.S. Policy in the Hemisphere." Overall, there is ample cause for optimism about Latin America. On the economic front, the region is entering its sixth year of growth, the longest stretch of sustained expansion in three decades. Poverty rates have declined and inequality in some places has likewise decreased. Budgets reflect fiscal discipline, debt is down, reserves are up, and credit worthiness in large economies such as Brazil has improved dramatically. Whether Latin America can take advantage of a vibrant global economy by improving productivity and competitiveness, however, remains a major question. Democracy is likewise strong. In the last two years some fifteen countries held competitive elections that by all accounts were free and fair; only Mexico's was contested. The last successful military coup in the region took place in 1976. The left is governing successfully throughout the region, and where political parties no longer represent the electorate, or where institutions are weak, such as Ecuador and Bolivia, constituent assemblies are writing new constitutions. These processes are not without their significant challenges, as would be expected when vast numbers of traditionally disenfranchised citizens seek participation and representation in successful democracies, such as Brazil, face major problems of corruption. And poor governance remains the rule, rather than the exception—whether with respect to the delivery of public services throughout the region, health, public transportation, or an impartial and accessible judiciary. Improvements in poverty and inequality hinge on moving public expenditures into the arenas of human and physical

The U.S. policy of permanent enmity as an impediment to a democratic outcome on the island. The critical challenge for the United States going forward will be how to manage the "interim" issues that dominate U.S. policies toward Latin America. Creating new bilateral and multilateral institutional frameworks to cope with these challenges will be especially complex in a context of persistent differentiation and in light of Latin America's inherent sensitivities to issues of sovereignty.

One critical dimension for the United States to understand with respect to internal developments in Latin America is the reasons for success, rather than simply the cause of failures. Brazil offers a fine example. There, over the last twenty years, the concept of "previsibilidad" has taken root: Brazilian citizens and political actors benefit from the stability of expectations about the rules of the game. They also share a sense of how to change the rules in ways that focus on deepening democratic institutions, building civil society, and pursuing economic prosperity. In Chile, likewise, the decision by President Michelle Bachelet to spend only the earnings on investments on social programs derives from a broad level of consensus in Chilean society about the country's most important problems and the imperatives of transparency and strong institutions. Brazilian and Chilean domestic politics benefit from a certain degree of distance from the United States. Strong institutions breed strong democracies: weak institutions breed populism. With majorities of Latin America's electorates living at or below the poverty level, often with a history of race or ethnicity-based exclusion, Latin American governments are today expected to respond to their demands for inclusion and a better material life. Political parties and leaders who cannot connect to this newly empowered citizenry simply will not be elected. Critically, the likelihood for solid institutions to develop in Latin America, one participant argued, is much greater when the United States is not directly involved in the domestic politics of individual Latin American countries. For Mexico and Central America, because of geographic proximity, economic interdependence, and social networks, managing the United States as a domestic political actor is a far more significant challenge than for South America, where the United States plays a vastly diminished role by comparison.
infrastructure investments. Doing so will in turn require significant restructuring of the tax base, which remains woefully inadequate and imbalanced. Overall, whether the left, center-left, center, center-right or right is in power in Latin America, a broad consensus is holding that governance and strong institutions are the sine qua non for Latin Americans to be able to compete globally and prosper equitably.

A discussion ensued concerning whether reducing poverty and inequality can or should be the focus for United States policy toward the region. It was argued that the United States excels in the areas of trade, investment, technology and education, tools that can best help Latin America create engines of growth. Foreign assistance, while effective in targeted programs, can only help at the margins given U.S. budget priorities that emphasize military and security assistance. Nonetheless, aid could be more beneficial if the Millennium Challenge Corporation’s eligibility standards were adjusted to make poor regions in middle income countries eligible, for example. Meanwhile, Brazilian, Mexican, and other conditional cash transfer programs, combined with policies that keep inflation down, have proven to be effective poverty-reduction tools. This highlights the importance of recognizing that Latin Americans are the most effective in addressing their own problems. Still, key policies such as trade require cooperation with the United States: overcoming the trade impasse between Brazil and the United States will require a strategic decision by both countries to sit down and reach an agreement on agricultural subsidies, for example, a development that would in turn revive the prospect for a hemisphere-wide trade area. Similarly, in order for Mexico and the United States to work together to regulate flows of people back and forth between the two countries, American policymakers need to see that Mexico is doing its share of policing its own border. It was emphasized repeatedly that the lion’s share of challenges Latin America faces will, at the end of the day, be best addressed by Latin Americans themselves.

Mexico Under Calderón:
Prospects for the Bilateral Relationship

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Mexican President Felipe Calderón took office on December 1, 2006 amid serious doubts about political stability and governability in Mexico. Yet during his first year in office he has demonstrated a clear ability to govern despite the difficult circumstances surrounding his election and inauguration. The secret to this success has been a very realistic and pragmatic approach to governing and its effective implementation despite numerous political obstacles. By focusing on the doable rather than the desirable, making the compromises needed to get things done, and accepting that change is apt to come one small step at a time, Calderón has registered important even if limited policy victories. These include advances in the battle against drug trafficking, a restructuring of the state workers’ pension system, fiscal and electoral reforms, and increased investment capital for the national oil company. The political foundation for these achievements, however, is apt to prevent Calderón from altering this modest approach to governing in the near future and it remains unclear if this approach will be sufficient to expand growth, competitiveness, and job creation in Mexico, or to reduce significantly the political and social discontent that feeds the radical left.

In foreign affairs, Calderón has consciously lowered the public profile of Mexico’s relationship with the United States. Mexico continues to cooperate ever more closely with the United States on key strategic issues, evidenced by the Bush administration’s willingness to push a large anti-crime assistance program for Mexico. Yet the public relationship is likely to be more correct than warm, punctuated by increased tensions tied to anti-immigrant sentiments in the United States, and balanced by closer Mexican ties with Latin America, including Cuba, Venezuela, and other governments of the left.

Calderón Consolidates Power

Felipe Calderón took office following a disputed election in which he garnered just 36% of the vote and his party failed to win a congressional majority, a rocky transition marked by a six-week opposition occupation of central Mexico City, and an inauguration disrupted by fist-fights. His presidency began without a popular mandate or a legislative majority, facing the aggressive opposition of the left, questionable support from his most likely legislative ally and his own party, and seemingly beholden to the business leaders and political power brokers that helped ensure his very narrow electoral victory. Yet in just a few months, Calderón has been able to transform fears that his government would be weak and stymied by the opposition at every step into a sense that he is in control and capable of moving the country forward. Clear evidence of this is seen in national opinion polls which registered over 60% public approval of Calderón’s performance by the summer of 2007.
Within days of taking office, President Calderón initiated a very public military/police campaign against the drug cartels and drug-related violence. He has sent 30,000 troops and federal police forces into a dozen states to reinforce state and local law enforcement. This operation has led to over 11,000 arrests, the extradition of several gang leaders, and the seizure of 21 metric tons of cocaine (through mid-October). It also built popular confidence in and support for the government during its difficult early weeks in office. But the operation has not lowered the rate of drug-related murders (the 2007 rate already surpassed the 2006 toll of 2,100 murders) or reduced significantly the depth of cartel penetration in local government and law enforcement.

On the legislative front, Calderón registered three limited but important victories during his first ten months in office. The Congress approved a restructuring of the state workers' pension system last spring that was the first economic reform approved in Mexico in a decade. This reform will save the government millions of dollars in pension payments by instituting a shift from a defined-benefit to a defined-contribution system. The savings will only begin to be felt after about a generation, however, because the shift is voluntary for all current workers, retirement ages are increased only slightly, and the guaranteed benefit doubled. Strong labor backing for the administration's main legislative ally also forced Calderón to include a huge carrot for the union—it will manage the new pension fund. All in all the legislation was significant not only politically but, in the long term, economically, and it was ultimately a modest reform.

The near simultaneous approval of two reforms in early September tells a similar story. After months of legislative wrangling, the Mexican Congress approved a tax reform that will increase revenues by about 2.6% of GDP over the next five years. This will enable the government to increase spending in priority areas of security, infrastructure, health care and anti-poverty programs. But this revenue increase is less than the estimated 3% inertial growth in current government spending anticipated over the next five years, due mostly to larger debt repayments. President Calderón was also forced to make three very significant compromises to achieve political victory: The funds will be raised through new business and gasoline taxes rather than an easy-to-collect value-added-tax on food, over a third of the new revenues are earmarked for state governments, and the reform was approved in conjunction with a large tax cut for the state-owned oil company, Pemex. Few in Mexico dispute Pemex's need for an injection of investment capital, but the Calderón government will now receive only half of the new revenues it initially proposed even though it paid significant political costs for the reform: the new business tax angered a key Calderón constituency and the unpopular gasoline tax cut his approval ratings by ten points.

The electoral reform also approved in early September is probably Calderón's clearest victory, in spite of his decision to allow the opposition to take most of the credit for it. Its most significant provisions require new directors of the Federal Electoral Community (IFE) to have an automatic recount in tight elections, and an end to paid television campaign advertising. By accepting the removal of a majority of the IFE directors and an automatic recount, Calderón responded to two central post-election demands of supporters of losing presidential candidate, Andrés Manuel Lopez Obrador. By replacing paid campaign ads with free television time in the weeks prior to an election, Calderón oversaw the elimination of a tool long used by Mexico's television duopoly to protect their interests by intimidating politicians, including presidents. And by agreeing to approve the bill's number one legislative priority in conjunction with his top legislative goal, Calderón won a measure of respect from the left and assured that it would not repeat its inauguration day performance and use force in an effort to block legislative approval of fiscal reform.

Calderón's Governing Strategy

This record of important yet modest success is a direct consequence of the challenging political environment in which President Calderón has governed and his strategy for dealing with it. Felipe Calderón took office facing seemingly countless political obstacles ranging from open conflict between Calderón and the president of his National Action Party to the radical groups propelling civil strife in the southern state of Oaxaca. Yet three have defined Calderón's governing strategy—the left, the PRI (Institutional Revolutionary Party), and business.

Calderón's strategy has relied on the powers of the presidency where possible and, in dealing with the Congress, it has focused on issues where there is consensus, avoided issues that are conflictive, and made significant compromises to win legislative support. The outcome has been a series of important, even if generally limited, policy advances all dedicated to advancing two core objectives: To move Mexico forward little by little, the only way deemed possible given the country's divisive political climate, and to expand the government's policymaking flexibility in order to achieve larger policy advances in the second half of Calderón's presidency.

The main constraint on Calderón's freedom of action in the presidency has been, and continues to be, the left's losing presidential candidate, Andrés Manuel Lopez Obrador. The Mexican left believes strongly that it was illegally denied victory in the July 2006 presidential election and will never recognize the legitimacy of that election. Lopez Obrador has taken this confrontation to an extreme by declaring himself the "legitimate" president of Mexico and refusing to have any dealings with what he calls the "spurious" Calderón government. Although Lopez Obrador's intransigent position has weakened his broad popular support in Mexico, it has strengthened his reputation in the more radical segments of the Mexican left and with the electoral base of the dominant party of the Mexican left, the Democratic Revolutionary Party (PRD). He sustains this support through nearly continuous speaking tours in PRD strongholds. With the logistical and financial support of his close ally, the mayor of Mexico City, Lopez Obrador has repeatedly demonstrated his ability to mobilize hundreds of thousands of supporters and radical prey on the weaknesses of the PRI to create a legislative majority. The party that governed Mexico continuously for over 70 years until 2000 has demonstrated no qualms about using its pivotal position to bring signif-
cant concessions from the government and thereby enhance its future electoral prospects. For example, the PRI held fiscal reform hostage for months during the spring and summer of 2007 as part of its political strategy to win gubernatorial elections in Yucatan (most successful-ly) and in Baja California in July (unsuccessful-ly). It then conditioned its support for the reform on eliminating the core component of the government’s initial proposal, a national sales tax on food, on a large tax cut for Pemex, and on the parallel approval of electoral reform. Yet the PRI has also been conspicuous in its willingness to play the role of a democrati- c opposition in contrast to the obstructionist strategy of the PRD. The question is how far this cooperation will go and how long it will last.

The PRI’s legislative strategy is informed by one thing: The party’s desire to reestablish its electoral prowess after the disastrous showing in the 2006 elections and thereby retake the presidency in 2012. Attaining this objective depends on retaining party unity and attracting the center-left independent voters who cast their ballots for Lopez Obrador last year. The PRI legislative leadership concluded that the best means to this end was cooperating with Calderon in Congress while using its veto power to protect the interests of poor and middle-class Mexicans (hence no sales tax on food). There are two obvious limits to this strategy, however. In the run-up to the 2009 midterm elections, prior to his attempt to form new alliances, the interests of President Calderon and the PRI will inevitably diverge making it much more difficult to reach legislative compromises. Of greater significance for the limits imposed by the PRI’s left-wing and the party’s desire to appeal to former PRD voters. The PRI is thus likely to reinforce the constraints on Calderon’s freedom of policy action on the left.

In the wake of the fiscal reform, Calderon was reminded of the restraints he also faces on the right. Business leaders expressed their strong opposition to the new business tax and were outraged by a government ad promoting the reform that belittled their complaints by suggesting they simply did not want to pay their fair share of taxes. Business leaders backed Calderon’s presidential candidacy only toward the end of the campaign in order to defeat Lopez Obrador, but they still think that their support should be repaid. In this context a tax reform that eliminated their ability to evade taxes easily was a slap in the face. For most of them are still waiting to wait and see what 2008 brings, but no Mexican president can ignore the concerns of business leaders given the sharp concentration of economic assets and power in the country, and the political clout this implies.

Implications for Economic Reform

Felipe Calderon has made impressive strides toward building political capital and laying the groundwork for expanded policy flexibility in the years ahead, but his ability to address the more contentious issues on Mexico’s reform agenda remain sharply constrained. Economists generally agree that Mexico needs three core reforms to jumpstart growth and development: large investments in human and infra- structure, a more flexible labor market, and a reform of the national petroleum company, Pemex. The fiscal reform of September 2007 will provide funds for an important down payment on Mexico’s backlog of investments in human and physical capital. A limited labor reform that reduces the costs of hiring and firing workers for small and medium-sized firms without increasing union democracy and accountability seems quite feasible politically. A broad-reaching reform of Pemex, however, is highly controversial and thus politically unlikely in the current political climate despite its economic urgency.

Mexican oil production has declined about 10% from its 2004 peak while proven reserves have fallen by half in the last decade. Pemex believes it can sustain current production levels for five to seven years but independent experts are much less optimistic, and a sus- tained fall in production would have profound consequences for Mexico and the United States. Declining oil production would cut exports from the United States’ third-largest supplier of imported oil. Poor refining capacity would further increase Mexican gasoline and natural gas imports from the United States, putting additional pressure on tight markets. In Mexico, the impact would be felt primarily in a federal budget dependent on Pemex for around one-third of its revenues. But the resulting budget cuts would dampen activity in the rest of the economy.

The proximate cause of Pemex’s production difficulties is the aging of its main oil field, but the real drivers of the firm’s difficulties are a shortage of investment capital, technology and experience, regulatory restraints and opera- tional inefficiencies, and above all political obstacles to solving these problems. The solu- tion favored by most energy analysts entails operational alliances between Pemex and for- eign oil companies, especially in the deep waters of the Gulf of Mexico. But Mexican law and the constitution effectively prohibit this and changing either would face the strong opposition from a unified left, a sizeable seg- ment of the PRI, and the public. Lopez Obrador has announced that he will take the streets to block any reform that permits increased private investment of any kind in Pemex. Public opposition to the “privatization” of Pemex, especially among PRD voters, would almost certainly unite the left behind this position. The more nationalist elements of the PRI also fervently oppose expanding private invest- ment in Pemex, creating an incentive for party leaders to offer rhetorical support in the inter- est of party unity and hence electoral viability. Until these conditions change, therefor, ener- gy reform is unlikely to extend beyond regula- tory changes.

Implications for U.S.-Mexico Relations

Felipe Calderon has used the powers of the Presidency to actively revise the foreign policy of his predecessor. His administration has already worked assiduously to diversify Mexico’s foreign relations, placing particular emphasis on reen- gaging with Latin America. After six years in which Mexico prioritized its North American ties to the detriment of its Latin American room, Calderon has courted Latin American leaders of all political stripes, reviving a strained relationship with Argentina and normalizing relations with Cuba and Venezuela. In Mexico’s relationship with the United States, Calderon has sustained close cooperation on most se- veral issues, but without the warm public embrace of the Fox Presidency. He has adopt- ed a businesslike approach that couples collabor- ation with a willingness to criticize what he sees as shortcomings in the relationship.

In the area of security and drugs, the Calderon administration has made clear its dis- satisfaction with U.S. support including insuffi- cient efforts to stop the illegal flow of arms from the United States to Mexico. Yet the extent of Mexican security cooperation with the United States has been greater under Calderon than any previous Mexican president and has helped create a formative foundation of trust and confidence.

The recently announced White House proposal for a multi-year security assistance program for Mexico offers clear evidence of this close bilateral cooperation. The proposal calls for a ten-fold increase in U.S. security assistance to provide the technology and training needed to improve the quality of Mexican crime-fighting. U.S. drug agents have hesitated to support this kind of assistance in the recent past due to a lack of confidence in their Mexican counterparts. Following the announcement of the proposal, however, Assistant Secretary of State Thomas Shannon argued that the Calderon Administration is "the kind of government that we need to work with," while the U.S. Ambassador in Mexico stated that the agreement represented a "fundamental shift" in strengthening the bilateral strategic partnership. Solidifying this potential "paradigm shift" in U.S.-Mexico security relations (Assistant Secretary Shannon’s phrasing) depends on congres- sional approval of the package. It is unclear if the U.S. Congress will approve the White House proposal and if it will do so without attaching conditions that make the package
The Venezuelan Political Regime Today: Strengths and Weaknesses

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Classifying the Regime

Venezuela under Hugo Chávez has become what political scientists often call a hybrid regime—it is not democratic, but it is not hard-core authoritarian either; at least not yet. Instead of abolishing checks-and-balances institutions, the regime packs them with loyalites. Instead of repressing dissidents, it practices job discrimination against voters. Instead of banning civic protests, it organizes counter-mobilizations by inciting and organizing mobs. Instead of disbanding organized opposition parties, it denies them resources. Instead of eliminating elected offices, it creates parallel, undemocratic units of government. Instead of shutting down the press, it burdens them with content regulations and, through media buyouts, reduces the private media's share of the market. Instead of suspending elections, it promotes abstentionism of would-be opponents by failing to guarantee the secrecy of the vote. Compared to the most repressive regimes of the 20th century, the Chávez regime is relatively tame. But compared to most Latin American countries today, where indices of political and civil liberties are historically high, the Chávez regime is certainly the most intolerant of the opposition in the region after Cuba.

Over time, the regime has moved away from promoting "participatory democracy," which was its initial campaign slogan. Back in 1998, when Chávez was elected, participatory democracy for Chávez supporters meant opening political opportunities for previously excluded groups (mostly small leftist parties, nongovernmental organizations, and social movements). For Chávez, it also meant more political space for the military. Upon coming to office in 1999, Chávez's first major act was to enact a new constitution. This 1999 constitution represented a pact between a new president, who was hoping to expand the powers of the Executive branch, and those previously excluded political groups, which were also seeking more access to state office. Each pact member got new powers, but at the expense of traditional organized groups such as political parties.

Since 2004, the regime has lost interest in this kind of pact with civil society actors. Rather, it has become mostly interested in expanding the power of the Executive branch and the military, and less so in expanding the powers of anyone else. Not even its political partners are receiving special consideration any more. The president's own party, the MVR, has been disbanded (in late 2006) in favor of a completely new party, the PSUV, which is more beholden to the president than its predecessor. Chávez's satellite parties have also been asked to disband and merge into the new PSUV.

The regime has established a quasi-monarchy of the majority. By "quasi-monarchy" I mean that no effort is made to take into consideration the views of opponents. By "majority," I want to stress the electoral competitiveness of the regime. Despite its power abuses, chavistas continue to win elections (13 of 14 thus far).
The regime accomplishes these majorities by pursuing a classic populist strategy of induce-ments and constraints. Enormous benefits (inducements) are allocated to those political actors willing to support the regime (e.g., access to new welfare programs, the so-called "mis-sions," public sector jobs, contracts with the state). Serious ostracism (constraints) is applied to those who oppose the regime, mostly in the form of insults, job discrimination, legal accusa-tions, and exclusion from welfare benefits. There is evidence that ostracism and concentra-tion of power are on the rise, but the inducements continue as well. Given any petrostate's disproportionate advantage in controlling the mix of inducements and constraints to be dis-pensed, it becomes very difficult for any opposi-tion force to beat the government's majority through elections for office. The opposition has no means to reward supporters or punish oppo-nents the way the state does.

Today, Chávez's coalition includes many high-income and privileged sectors of society. While Chávez is popular among low-income groups, he is supported by more than just the poor. The most prominent non-disadvantaged ally is the military. After a series of purges between 2001 and 2004, the military is now well staffed with loyalists and larger than ever. Another govern-ment-partner group is the so-called "bolivari-anos," business managers who support the Bolivarian Revolution because they welcome state contracts and protectionism. Finally, Chávez is actively supported by citizens who profit from corruption and crime especial-ly drug trade.

The chavista coalition has become more con-servative than revolutionary. Although the members of the chavista coalition come from different income groups (welfare recipients are mostly poor, state employees come from the low middle classes, and corrupt folks are wealthier), they share the same objective: preserve their gains; namely, access to social programs, state jobs, exclusive state contracts, and impunity. What unites these groups is a fear that the opposition will take away these gains. Chávez always reminds supporters that if the opposition ever wins again, they each will lose their new gains. This scare tactic seems to work.

Another tool used by Chávez to maximize Executive branch powers is to promote discre-tionary state, which involves a two-pronged strat-egy: one, expanding the role of the state in the economy; and two, lessening the independent checks on state action. By expanding the state, Chávez creates more political positions to offer those inclined to support him, not to mention more opportunities to spend and to regulate the economy, that is to say, more opportunities to co-opt. By lessening the accountability of the state, Chávez can co-opt without being questioned.

As a way to divert attention from its increasing authoritarian, conservative, militaristic, and business-collusion tendencies, the regime overemphasizes two features: distributionism, and anti-Americanism. First, Chávez wants to be recognized around the world as an undisputed champion of the poor. Thus, he spends far more on social programs than is typical of most authoritarian regimes, almost to the point where there are virtually no controls on spend-ing. This has created a large bureaucracy devot-ed to social services. The officials who run these bureaucracies might be in disagreement with many aspects of chavismo, but they nonetheless feel that what they are involved in—social ser-vices—is noble and worth defending. Second, Chávez wants to be recognized worldwide as a champion of anti-U.S. rhetoric. Chávez has esti-mated that as long as he can overlay these two features, progressive forces will either ignore or forgive the regime's less-than-progressive attrib-utes. Because Chávez scores low on many achievements that progressives like, he compensates by overplaying distributionism and anti-Americanism. These features of chavismo will not go away. It is naïve to believe that better U.S. diplomacy toward the regime will make it more fiscally frugal, or less anti-American.

Finally, a word on repression: thus far the regime has not displayed brutal repression, but at the same time, the opposition has not turned violent. Since 2002, most opposition acts (except for the 2002 coup) have complied with constitutional norms; strikes and protests prevailed in 2001-2003; signature collection and recall referenda in 2004; electoral boycotts in 2006; participation in elections in 2006, and protests again in 2007. All these acts were legal and predominantly peaceful. However, if the opposition becomes unruly and violent, the govern-ment has both the legal instruments (laws banning "disrespectful" protests) and the mili-tary force (a 2 million-strong urban militia and an armed forces with surplus arms) to repress. Whether it will have the guts—and the military's willingness—to repress is an open question.

Cracks in the system

Despite its enormous strengths, the chavista regime is full of cracks; the most important is inefficiency in managing government affairs. One would never think that a statist and petrol-eum-dependent regime like Chávez's could afford chaos at the state level, much less in its oil sector. But Chávez not only tolerates such chaos, he promotes it.

One clear indicator of bureaucratic chaos is the high level of ministerial changes, surpassing that of any other Venezuelan administration since 1958. On average, Chávez changes 54 per-cent of his cabinet annually. This is a Venezuelan record. Even the two administrations before Chávez, supposedly the least effective of all, had lower turnover rates than Chávez (37.5 percent and 31 percent, respectively). Of the 100 peo-ple who have been appointed to Chávez's cabi-net since its start until mid 2007, only 16 have survived more than three years. Most last less than two years.

This turnover rate is visible even in pivotal ministries:

<table>
<thead>
<tr>
<th>Cabinet Post</th>
<th># of Ministers</th>
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<tr>
<td>Vice Presidents</td>
<td>5</td>
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<td>Foreign Ministers</td>
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<tr>
<td>Interior Ministers</td>
<td>8</td>
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<tr>
<td>Secretaries to the President</td>
<td>9</td>
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<tr>
<td>Treasury Ministers</td>
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<tr>
<td>Industry and Commerce Minis-</td>
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The current cabinet is full of new faces. Of the 30 cabinet members today, only seven have spent more than two years with Chávez; six have been with him between one and two years. The remaining thirteen have spent less than a year.

These facts suggest that this is a far more personalist regime than even the supposedly leader-centric Cuba. Jorge I. Domínguez, one of the world's foremost scholars of Cuba, once classified the Cuban regime as an "advisory oligarchy with an undisputed leader." He was referring to the significant number of permanent advisors, many of them war veterans, who accompanied Fidel throughout his leadership, as cabinet mem-bers, vice-presidents, special advisors, party leaders, etc. In Venezuela, there is an undis-puted leader, but there appears to be no advisory oligarchy. If there is one, it is small or hidden from view. All told, close advisors seem unimportant. Even assuming that his advisors are simply hidden from view, the truth is that Chávez makes decisions with-out paying attention to anyone's advice.

Whether intentional or not, Chávez's high turn-over makes good governance nearly impossible. When the average minister lasts less than sixteen months in office, it is impossible to speak of governing capacity.
The International Political Economy (IPE)

A favorable IPE environment has promoted and can continue to promote the regime's radicalization. The current environment of high oil prices is fueling Chávez's political excesses because it provides the necessary revenues to expand statism, and thus the regime's policies of inducements and constraints. In the 1960s, a major contributing factor to Cuba's radicalization was also a favorable IPE: the Soviet Union became willing to serve not just as Cuba's political sponsor, but also as Cuba's buyer of last resort by absorbing sugar sales and providing subsidies (of energy, capital, and financial assets). This allowed Cuba to break trade ties (and thus political ties) with the United States, and, one could even argue, disregard economic efficiency.

However, Venezuela is unlikely to serve as Venezuela's "Soviet Union." It is important to keep in mind the differences in the international political economy of the early 1960s, when the Cuban Revolution became radicalized, and the late 2000s, when Venezuela's revolution could become more radicalized. Today, there is no country willing to play this Soviet Union role. China is the only likely candidate: it has a fast-growing appetite for oil. Yet, China is unlikely to offer to buy all of Venezuela's oil. In 2007, Venezuela sold approximately 1.25 million bbl/d of crude oil and petroleum products to the United States, and 0.35 million bbl/d of oil to China. Despite rhetoric from Caracas, this level of China-Venezuela oil trade is unlikely to grow significantly in the medium term. First, China knows that it is cheaper to develop markets near its border (Central Asia) or in countries where it can have greater bargaining leverage (African states). Furthermore, China does not have the refineries necessary to process Venezuela's extra heavy crude. Also, shipping oil from Venezuela to China would be prohibitively expensive, involving a 40-day trip. Finally, China is unlikely to consider Venezuela the strong strategic asset that Cuba was for the Soviet Union. Back in the 1960s, acquiring a political/military base in Cuba was the equivalent of placing a battleship in the Gulf of Mexico, which allowed the Soviet Union to close the military advantage that NATO had in Europe ("weaken near the Iron Curtain."). China feels no desire to have a "battleship" in the Caribbean Basin.

Consequently, Venezuela has turned to Iran. Not having found a buyer of last resort, Venezuela has developed a strong interest in maximizing the price of oil in world markets. However, Venezuela cannot accomplish this price hike alone, so it has become interested in Iran, one of the world's largest oil exporters. In addition to exchanging and developing weapons, the primary purpose of ties with Iran is to push oil prices up.

There are two ways in which a Venezuela-Iran alliance can promote oil price increases. The first strategy is out in the open: increase the number of hawks within OPEC. Both countries are interested in price increases (through oil production cutsbacks) rather than price stabilization (through production increases). Iran and Venezuela are the second-and-fifth-largest producers in OPEC, partnering up makes them powerful within the oil cartel to counteract Saudi Arabia's attempt to keep production high. The other reason that an alliance with Iran could help promote price increases is a bit more sinister. Venezuela knows that a confrontation between Iran and the United States could produce a crisis in the Middle East, which would boost the price of oil. If so, one could argue that Venezuela has an interest in encouraging such a crisis. Venezuela could be developing ties with Iran for no other reason than to encourage Iran's bad behavior, and thus, bring on a crisis in the Middle East.

The table below lists the crucial actors in the world political economy of oil and the actual, tacit and potential alliances. Venezuela and Iran share similar policy goals: strengthen OPEC and oil prices. The United States and China share the opposite goals: dilute the power of OPEC and keep the price of oil low. Saudi Arabia is the intermediary player: it sides with Venezuela and Iran on the issue of strengthening OPEC, and is somewhat sympathetic to the United States and China on the issue of avoiding oil price. This distribution of powers and preferences means that the United States is not alone. Insofar as the United States can keep China and Saudi Arabia on its side, it will preserve an international political economy that can contain some of Venezuela's foreign policy goals.
However, a confrontation between Iran and the United States may bring China closer to Venezuela. China has significantly increased its oil ties with Iran in the last decade. Iran is China’s second-largest source of imported oil, and China dominates about 8 percent of Iran’s oil market. If a confrontation between Iran and the United States were to occur, leading to an increase in the price of oil or a disruption in Iranian oil to China, the alliance between China and the United States might become strained. At the very least, China will want to find new suppliers. Venezuela might suddenly become appealing to China.

Having said that, the United States remains far less dependent on Venezuela than vice versa. Venezuela provides approximately 13 percent of U.S. oil imports. In contrast, the United States provides the bulk of Venezuela’s export revenues (70 percent) and thus government revenues (almost 50 percent). Economically speaking, the United States is in a better position to absorb an increase in oil than Venezuela is to survive a collapse in oil sales to the U.S. Provided some conditions hold (inflation stays low, oil exporters continue to send their dollars to the United States), many analysts feel that the United States could survive further increases in oil prices given that current prices today are still 25 percent below in real terms prices in 1989.

But politically, for the United States to unilaterally end trade with Venezuela would be a serious public relations disaster and a boom for chavismo. Hugo Chávez is interested in a confrontation with the United States. A confrontation with the United States will allow Chávez to blame all his economic woes on the United States, to concentrate more power and crackdown on enemies by declaring a state of emergency, and to gain even more international sympathy than he already has. Far from containing chavismo, a confrontation with the United States will embolden it.

**Recommendations**

1. Avoid name-calling. A war of words between the United States does nothing to contain Chávez. It is what Chávez seeks. The United States should not play into Venezuela’s hands.

2. Monitor closely Venezuela’s weapons modernization process and increasing ties with Iran. These are activities with the greatest potential for crisis.

3. Work closely with Saudi Arabia (OPEC) and China (oil importer) to contain Chavismo’s foreign policy goals. These countries have compatible interests with the United States, yet they also have influence on Venezuela.

4. Develop a counter strategy to Venezuela’s soft-power foreign policy. Part of Venezuela’s appeal in the region, where it exists, is due to more than just its oil-diplomacy, but also its soft-power diplomacy (attention to development needs of countries). Some estimates suggest that Chávez has provided or promised more aid to Latin American countries in real terms more than the U.S. spent on the Marshall Plan in Europe after World War II. The goal is to promote "alternative movements" that oppose U.S. objectives. The United States ought to compete with Venezuela more effectively on this front. Fighting terrorism and drug traffic and promoting trade helps, but until the United States begins to project more soft-power in the region, Venezuela will retain a foreign policy advantage over the United States.

**Endnotes**

1. An example is the government’s recent announcement of plans to expand PDVSA’s payroll by 51.9 percent between 2007 and 2009 (from 73,808 to 113,851 employees).

2. In 2003, at the time of the petroleum stoppage, the productivity of the PDVSA reached 2.2 million barrels per day (this did not include the production of hydrocarbons by foreign businesses). Today, PDVSA produces about 1.6 million barrels daily – 30 percent less than in 2005, although it is difficult to say with certainty since PDVSA will not provide definitive and verifiable data. More evidence of the PDVSA’s decline in productivity is that in September 2007 OPEC reassigned quotas among its members in order to better reflect the actual current production from each member. The Venezuelan quota in OPEC was reduced from 11.5% to 9.1% (from 5,085,000 b/d to 2,470,000 b/d) for November 1, 2007, information that the Chávez government tried to hide but which came to public light.

3. In December 2007, a government-sponsored referendum for constitutional change, aimed at reducing checks and balances on the president, was defeated by a narrow margin of 1.4 points. This was Chávez’s first defeat at the polls. One reason for this defeat was a high abstention rate among chavistas, which suggests that not all chavismo favours expanding the president’s formal powers uncontrollably.

4. Because supertankers are not allowed through the Panama Canal, oil shipments from Venezuela to China would need to go first south-southeast (to the Strait of Magellan) and then north-northwest across the Pacific, or else, entirely east through Cape Horn and then the Strait of Malacca. Either route would be one of the lengthiest in the world.

5. There is some concern that Iran is helping Venezuela explore the nuclear option. There are rumors that Iranian scientists and engineers are prospecting for uranium ore in the granite bedrock under the south-eastern jungles of Venezuela, a region rich with mineral deposits. It’s difficult to see why Chávez would want nuclear technology for peaceful, energy-producing ends; Venezuela has the largest hydrocarbon reserves in the Americas, and it already makes good use of its ample hydroelectricity generation potential.

18
Latin American Trends and Their Significance for the United States

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The first step toward improved US policies in the Americas is to disaggregate this highly diverse region. We have always known, of course, that Latin American and Caribbean nations vary enormously. In recent years, however, Washington has emphasized regional convergence: toward democratic governance, market-oriented economics, policies of macroeconomic balance and of regional integration.

But key differences among the countries of Latin America and the Caribbean persist, and some of these differences are growing, not shrinking, along five dimensions:

- The nature and degree of demographic and economic interdependence with the United States—highest and still rapidly growing in Mexico, Central America and the Caribbean, lowest and likely to remain low in the Southern Cone;

- The extent to which the countries have committed their economies to international competition: by far the fullest in Chile, relatively full in Brazil, Colombia, Mexico, Panama, Peru, Costa Rica and much of Central America; not so in many other countries;

- The strength of democratic governance, including horizontal accountability and the rule of law: strong in Chile, Uruguay, Costa Rica, and increasingly, if quite unevenly, Brazil; gaining ground in Mexico but still being fashioned through hard struggle there; arguably declining in Argentina; and under great strain in Venezuela, all the Andean nations, much of Central America, Haiti and Paraguay;

- The relative effectiveness of civic and political institutions: strongest in Chile, growing steadily and impressively in Brazil and in Mexico, regaining stature in Colombia; still weak in many nations, deteriorating in Venezuela and Argentina, exceptionally weak in Haiti; and

- The special and difficult challenge of integrating more than thirty million disadvantaged indigenous people, especially in Bolivia, Ecuador, Guatemala, Honduras, Paraguay, the Peruvian highlands and southern Mexico.

Only when these important structural differences are consistently recognized can Latin America and the Caribbean come into clear focus. Western Hemisphere-wide statements, policies and summits simply will not work.

Brazil: Gaining on the Future

In many ways, the future has arrived in Brazil, or at least it is much closer. Brazil has opened important parts of its economy to international competition, modernized much of its agricultural sector, and developed a number of industries with continental and even worldwide presence. Brazil has slowly but surely strengthened its state, private sector and non-governmental
Institutions have secured financial stability, attracted substantial foreign investment, and produced steady growth if still modest economic growth. Together with Chile, Brazil has also led the way toward reducing absolute poverty and gross inequality through public policy. And Brazil is making notable (though uneven and still far from sufficient) progress in combating corruption, crime, violence, impunity and lack of accountability.

Brazil has also forged a broad consensus on national goals, including the urgent needs to alleviate poverty, reduce gross inequities, combat racial discrimination, control crime, reduce violence and improve education at all levels. No one should underestimate the difficulty of devising and implementing policies to achieve these goals. To unleash greater energy, it is imperative to radically improve the quality of education; modernize infrastructure and public services; reform the police; enhance productivity in the sectors in which Brazil can be internationally competitive; reduce entitlements; and restructure tax policies. But consensus and strengthened institutions combine to produce an unprecedented degree of preservabilidad in Brazil, i.e., stable expectations about the "rules of the game" and about the institutional processes for changing them. This preservabilidad permits the state, private enterprise and individual citizens to make confident decisions that provide, in turn, an important part of what is needed to further build the country.

This makes it possible for the United States to work closely with Brazil to pursue shared interests in enhancing energy security, strengthening global governance, promoting regional stability, and protecting the environment and public health.

The Southern Cone: A Study in Contrasts

Chile is the Latin American country most engaged in the world economy, with the strongest institutions and the most entrenched democratic norms and practices. At this stage of its history, Chile has a relatively limited challenge of indigenous integration, sends out few migrants to the United States and elsewhere, and is at least as closely tied to the economies of Asia, Europe and the rest of Latin America as to that of the United States. Chile has built broad national consensus on many key public policies, undergirding a high degree of preservabilidad. It facilitates investment, national and foreign, and fosters strategic planning, both by government and by the private sector. The striking example is the decision by the Bachelet administration to invest copper windfall earnings in international instruments, drawing only in the earnings generated by those investments for domestic social needs. Far from being the poster child for unfettered markets that some in Washington portray, Chile has shown the value of pragmatically combining market-opening reforms with strengthened state capacity and vigorous state action. The country is not without challenges—educational system that reinforces inequities, major environmental problems, and the continuing issues of global competitiveness, for example—but its policies, politics and institutions facilitate meeting these challenges.

Argentina, by contrast, has had difficulty building consensus, fortifying institutions, opening up its full economy, and achieving the predictability and transparency that are so important to overcome short-term perspectives (vultures) and facilitate development. Although Argentina has been active in international affairs—and has been a staunch and often helpful ally of the United States on counter-terrorism, counter-narcotics and non-proliferation—it cannot confidently count on much meaningful empathy or concrete support from the United States, no matter who governs in Washington, as long as strong doubts persist about Argentina's likelihood to sustain sound policies.

The Andean Ridge: Crises of Governance

All the Andean Ridge countries (Bolivia, Colombia, Ecuador, Peru and Venezuela), to differing but invariably high degrees, are plagued by extremely weak political institutions and by the unresolved integration of large indigenous populations, and of those, not only indigenous, who live in extreme poverty. In these circumstances, the Washington mantra that free markets and democratic politics strengthen and support each other in a powerful virtuous circle does not work. Massive exclusion, extensive poverty and gross inequity, rising ethnic and subnational regional consciousness, the weak presence of the state in rural areas, democratic politics and market economies are an extremely volatile combination, unable to coexist in the medium term. The Andean crises of governance—violence, instability, demagoguery and populism—arise from this profound quandary. The corrosive and violent narcotics trade is at least as much symptom as cause of these crises; addressing the drug trade alone will therefore have little effect. By the same token, combating the guerrilla and para-military movements through military means alone is unlikely to have any enduring impact. Only if and when the region's underlying realities are addressed in integral fashion can the Andean Ridge nations hope to achieve political stability and democratic development.

Each of the Andean countries is distinct, and the situation in several of these is fluid and uncertain. Peru's democratic government has to overcome deep alienation in the country's highland and jungle regions by delivering public services and economic progress, not mere rhetoric and symbol. In Bolivia, efforts to refound national identity, build new political institutions and revert to resource nationalism face strong internal regional opposition, the constraints of the international economy and deep suspicion from established national elites and middle-class professionals. Colombia has made important progress in overcoming insurgent movements and restoring urban peace but still remains a violently divided and corrupted society. And Venezuela is becoming every month more polarized, with Hugo Chavez' march toward more authoritarian and personal rule on the basis of popular support from sectors previously without voice or influence. Protecting US interests in these circumstances requires patient, nuanced and case by case treatment, not broad policies to reverse a supposed Pink Tide.

Latin America's Supposed Left Turn

A common perception of Latin America in the United States is that the region, led by Hugo Chavez of Venezuela, has been "turning left," and that this supposed orientation could pose threats to US influence, prosperity and security. In some versions of this trope, reference is made to the increasing presence of China in Latin America, and/or to the recently emerging interest of Iran in the region.

This view is based, as stereotypes usually are, on some real data, but it is profoundly misinformed.

Leaders from the Latin American Left hold office, in Argentina, Brazil, Chile, Costa Rica, the Dominican Republic, Panama, Peru and Uruguay, but they are strongly committed to free markets, international trade and foreign investment. They do not believe in centrally planned economies but favor efficient states focused on education, infrastructure and poverty alleviation. They do not belittle democratic governance, as did the Left of the 1960s, but are its staunch proponents. They are not anti-American, but are open to pragmatic cooperation with the United States, without being automatic allies or client states. In none of these countries does Hugo Chavez have much current influence, despite his lavish petrodollary diplomacy.

The governments of Colombia, Mexico, El Salvador and Guatemala, meanwhile, are not at all leftist but rather centrist to conservative, and they are eager both to cooperate with Washington and to resist the blandishments of Chavez, although not necessarily to confront him. Although there are nationalist, populist, or anti-U.S. politicians in each of these countries, these have thus far been defeated at the polls by candidates committed to free market and pro-U.S. approaches, even in a period when the international image of the United
States is badly tarnished. All told, the main tendency in recent Latin American political and electoral behavior has been toward the center, not the left.

Bolivia, Ecuador, Nicaragua, Venezuela—and Cuba, of course—have different varieties of populist government, and Paraguay and, conceivably, Guatemala might follow suit. But only Venezuela and Cuba are pursuing policies consistently antagonistic to the United States, and even Venezuela still continues pragmatically to sell most of its petroleum to the United States, while Cuba is probably quickly preparing itself for reconciliation with the United States. Except for oil-rich Venezuela, all these countries are among the region's poorest. Most have high numbers of historically excluded indigenous peoples, as is true also in southern Mexico and highland Peru, where the anti-system and anti-elite appeals personified by Chavez also have significant support.

These are among the least integrated and least developed countries of Latin America, not the basis for a powerful or threatening anti-US axis. It is vital for these countries to invest in poverty alleviation, education, infrastructure and social inclusion—and it would be useful for the United States and other major countries of the Americas to support such efforts—but the United States does not face a security crisis because of these countries, nor is one likely.

China is rapidly expanding its economic activity in Latin America, and soon there will be a larger Chinese presence in the Americas than ever was true of the Soviet Union during the Cold War. But the fact that China has become an increasingly important trade partner of several Latin American countries (as it is with the United States, of course), mainly as an importer of raw materials and agricultural commodities, is favorable to U.S. interests, for it promotes greater prosperity and expanded purchasing power in an export market where the United States has many competitive advantages, arising from proximity, familiarity and the bridging potential of the Latin American diaspora. Although apparent Chinese promises of major investments in Latin America have thus far not led to much concrete follow-up, there would be little reason for the United States to be concerned if investment from China (or from India for that matter) were to expand from its current modest levels; this would contribute to the open world economy that secures the interests of the United States.

And although there are remote but potentially scary scenarios in which Iranian or Islamic militant factions could cause difficulties in or from Latin America, the region is not a likely target, arena or source of terrorist attacks. The US focus in the Western Hemisphere should be on opportunities to confront common problems—from energy security and global warming to public health, narcotics, arms traffic, commerce and immigration—not on looking for phantom threats.

Closest Neighbors: The "Internestic" Agenda

U.S. relations with its closest neighbors in Mexico, Central America and the Caribbean countries are increasingly distinct from those with South America. The United States has become an even more overwhelming influence on its whole border region, primarily as a result of massive migration since 1965. By the same token, the large and growing Mexican, Central American and Caribbean diasporas in an increasing number of different parts of the United States are irreversibly changing U.S. relations with the Caribbean Basin.

Together Mexico, Central America and the Caribbean countries account for about a third of the total population of Latin America and the Caribbean but for nearly half of all U.S. investment in the entire region, more than 70 percent of U.S.-Latin American licit trade, and some 85 percent of all Latin American immigration to the United States. During the next 25 years, Mexico and the Caribbean and Central American nations are likely to become even more fully absorbed into the U.S. orbit, both because of underlying trends and because of such policies as the North American Free Trade Agreement (NAFTA) and the Free Trade Agreement with the Dominican Republic and the Central American nations (DR-CAFTA). They will be using the dollar as their informal and in many cases their official currency; sending almost all their exports to the United States; relying overwhelmingly on remittances from their diasporas and on U.S. tourists, investment, imports and technology; absorbing U.S. popular culture and fashion; but also influencing popular culture on the mainland; developing baseball players for the North American major leagues, and perhaps eventually fielding major league teams of their own. They will continue to send many migrants northward, and many will accept increasing numbers of retired North Americans as long-term residents as well as large numbers seeking inexpensive medical care. Transnational citizens and networks will grow in importance on such issues as portable international health insurance, extraterritorial applicability for medicare benefits and bilingual education. All these trends will almost certainly include Cuba in time, perhaps soon, and quite likely in an accelerated way.

The issues that flow directly from the unique mutual interpenetration between the United States and its closest neighbors—immigration, narcotics and arms trafficking, auto theft, money laundering, responding to hurricanes and other natural disasters, protecting the environment and public health, law enforcement and border management—pose particularly complex challenges for policy. These "internestic" issues, combining international and domestic facets, are very hard to handle. The democratic political process, both in the United States and in its neighboring countries, pushes policies on both sides in directions that are diametrically opposed to what would be needed to secure the international cooperation required to manage thorny problems that transcend borders. A vivid example is immigration policy; the points scored in the U.S. Congressional debates and approval by Congress of the border fence between the United States and Mexico undoubtedly had counter-productive impacts in Mexico and Central America, making it harder to work together on this and other issues. This has also been true of anti-narcotics policy, on which the United States still focuses much more on constraining supply than on curbing demand, and of agricultural subsidies, contrary to US commercial concepts and market ideology, that are imposed by domestic lobbies.

This dilemma—that the policy approaches most attractive at home often block needed international cooperation—is not limited to the United States. The impulses to place responsibility for tough problems on the other side of the border, and to assert "sovereignty" even when that is impossible in practical terms, are reciprocal and interactive, and they present a major challenge to Congress.
The Next President’s Agenda for the Americas

Peter Hakim
President, Inter-American Dialogue

No one in Washington is very satisfied with the state of Western Hemisphere affairs. Members of Congress from both parties, although hardly blameless for the deterioration of U.S.-Latin American relations, bemoan the region’s alienation from Washington and disparage U.S. policy in the Americas. This past May, Democratic Chair of the House Foreign Affairs Committee Tom Lantos complained about “the administration’s utter abdication of Latin America policy”, arguing that “warm relations... evaporated long ago...” As early as 2004, then Republican Chair of the Senate Foreign Relations Committee Richard Lugar complained about Washington’s “inconsistent engagement with Latin America” and its impact on democracy in the region. Although not always publicly, Latin Americans are far more critical.

Repairing the U.S. relationship with Latin America will be a formidable challenge for the next president of the United States. Trust and credibility have to be restored among the region’s leaders and ordinary citizens. The anti-Americanism that has taken hold region wide has to be reversed, and the practice of political and economic cooperation has to be restored.

Still, the task of remodeling U.S. policy should be less difficult in this hemisphere than it will be in other regions of the world. As the next president contemplates how to revive U.S. prestige and diminished influence worldwide, Latin America may be the right place to begin. The cost should be lower, and the payoff quicker.

The United States Is Still Important to Latin America

Venezuelan President and U.S. antagonist Hugo Chávez recently said he hoped for better relations with Washington once President Bush leaves office. Whether Chávez meant it or not, his sentiment would be endorsed by most of the region’s leaders.

Despite their disappointments in recent years, the vast majority of Latin American countries want good relations with Washington. They know how vital the U.S. is to their interests. With its immense $12 trillion economy, some six times that of the entire region, the U.S. is the first or second largest trading partner of nearly every Latin American country, and the region’s major supplier of investment capital. This year, Latin American migrants in the U.S. will send more than $60 billion dollars to their families in the region.

Most countries have made clear they want strong trade links and other economic ties with the U.S. Eleven of Latin America’s 19 nations have signed bilateral free trade pacts with Washington, although three of them still await U.S. congressional approval. (One of them is likely to be ratified in late October or early November this year) Even governments that reject free trade negotiation with the U.S.—Bolivia and Ecuador, for instance—have lobbied Washington hard for trade preferences to keep U.S. tariffs low. The most vitriolic critic of U.S.-
Latin America trade deals, Venezuela, sends most of its oil to the U.S. duty free.

The U.S., however, is not merely a huge market and capital reserve for Latin America. For better or worse, the U.S. continues to play an important political role throughout the region. No other country was prepared to assist Colombia’s battle for survival against illicit drug trafficking and guerrilla violence. It was the U.S. that took the controversial step of pressing Aristide to give up power in Haiti in 2002, and subsequently prodded Brazil to lead a peacekeeping mission in the country. Last year, Washington helped to stop the constitutionally suspect ouster of Nicaraguan President Bolaños. It also clumsily (and unsuccessfully) intervened to prevent the reelection of its old nemesis President Daniel Ortega.

Even Brazil, which pursues the region’s most stubbornly independent and diverse foreign policy, has made plain how much it values good relations with the U.S. Top foreign policy officials of Brazil’s left leaning government publicly insist the U.S.-Brazilian relationship has never been stronger. Brazil knows that its international and regional ambitions require amiable ties with the U.S.—and that an adversarial relationship would be costly in many ways.

To be sure, many in Latin America deeply resent and mistrust the U.S., and take pride in resisting Washington’s pressures and inducements. They are sometimes delighted when Fidel Castro or Hugo Chávez vilifies Washington, even if they would never do so themselves. But most Latin American governments, whatever their feelings about the U.S. and its policies, resist the anti-American temptation. They know, often from experience, that alienating Washington can carry a high price—and usually pursue a cordial and constructive relationship with the world’s superpower.

Shared Values and Preferences

The next U.S. president will also find that, aside from Europe, Latin America is the region that most shares American political values and economic policy views. Despite the hand wringing of many journalists and political analysts, democracy in the region has turned out to be surprisingly robust. Every one of 15 recent presidential elections was judged to be free and fair by international observers. Only in one country, Mexico, did the loser dispute the outcome. All the elections were competitive and voter turnout was high everywhere.

Fears that a “left-wing” trend in Latin America was about to upend democratic progress and scuttle good economic policy were wildly overblown. To be sure, the “left” won more than its share of elections, but few nations have changed their economic or political course. Democracy is threatened by radical or populist leaders only in a small number of mostly weak and unstable countries.

Moreover, Latin American governments have almost universally adopted market economic reforms. The region’s businesses are almost all in private hands, foreign trade and investment are growing, and budgets are in balance. True, the pace of reform has slowed, but there has been no wholesale turning back to state control or populism. Many governments publicly rail against the Washington Consensus policies promoted by the World Bank and International Monetary Fund (IMF), but they mostly follow them in practice. Only Cuba’s economy is state managed. Only Venezuela pursues populist economic policies; governments elsewhere know populism is a luxury they cannot afford.

Latin America Is Doing Quite Well, Thank You

The region’s recent economic upturn will also facilitate the efforts of a new administration to turn around U.S.-Latin American relations. As the region’s economies bounce back from a 20-year slump, Latin America’s sour mood is lifting—and there are fewer reasons to scapegoat Washington.

Latin America is now in its fifth year of economic expansion, with no slowdown in sight. Even the recent turmoil in global financial markets has raised few alarm bells. Every country is growing, and the economic dividends are reaching most Latin Americans. Unemployment is down and poverty rates are receding. The growth surge has been accompanied by other good news—historically low inflation, record exports and surplus, reduced dependence on imported fuels, and rising international credit ratings.

Some economic clouds remain, however. A buoyant global economy, not improvements in the region’s competitiveness, is driving Latin America’s expansion. Growth rates and productivity badly lag those of other developing regions. Future success will require politically reform, in such sensitive areas as taxation, labor, and pensions. Governments need to invest more in physical infrastructure, improve education, revamp investment-discouraging regulations, expand energy supplies, and further reduce trade barriers. The region, in short, can do better. But today’s robust growth puts Latin America in a strong position to confront its challenges.

The Weak Points: Political and Social Developments

Political and social developments in Latin America present a less rosy picture.

The “social agenda” is where Latin America’s most intractable problems are found. Despite recent gains, 40 percent of Latin Americans still live in poverty. Joblessness, while declining, is higher now than it was in 1990. No other region in the world suffers greater inequalities of income and wealth. For the poor and near poor, these social deficits are compounded by the appallingly low quality of public services—transportation, justice and law, and education and health, for example—and by widespread discrimination against black and indigenous populations. President Fernando Henrique Cardoso once said that Brazil was an unjust country, not an underdeveloped one. So are most other Latin American nations.

Persistent economic and social imbalances have left many Latin Americans alienated and frustrated, and have bred divisive politics in many countries. The recent spate of elections showed democracy is healthy. It also revealed, however, that the nations of the region are more politically polarized—by class, race, and region—than at any time in recent memory. These pressures are assisting the��'s bid, and are provoking conflict in some places. They have fueled secession sentiments in Bolivia, and precipitated the bitter post-election dispute in Mexico.

Polarized politics emerging from deep social rifts explains how Hugo Chávez was elected in 1998, how he managed to acquire virtually dictatorial powers, and why he remains popular in Venezuela. His bombastic rhetoric targeting Latin America’s elites resonates across the region because it contains a salable grain of truth.

Disharmony in the Americas

It was not that long ago that the nations of the Americas were celebrating a new-found political harmony and working toward the integration of their economies. In 1991, the governments signed onto the Santiago Resolution, which called for collective action when democracy came under threat in any country of the hemisphere. The U.S., Canada, and Mexico ratified the trilateral NAFTA free trade pact in 1993. The following year, the hemisphere’s heads of state assembled for the first time in a generation, and agreed to negotiate a free trade arrangement among all 34 countries.

But convergence had its limits. The Clinton Administration failed to obtain the congressional authority needed to advance regional trade talks. In 2008, Brazilian President Cardoso warned that there would be no hemispheric trade agreement unless the U.S. reversed its protectionist farm policies. Prospects for hemispheric cooperation were further set back when a post-9/11 Washington redirected the bulk of its foreign policy attention to the Middle East. The U.S. invasion of Iraq in 2003, opposed almost everywhere in Latin America, was a particularly damaging blow. By then, free trade
negotiations had stalled because of Brazilian-U.S. disputes; and Hugo Chávez had become an increasingly disruptive force in hemispheric affairs, aggressively promoting an anti-U.S. agenda across Latin America.

Chávez’s belligerence has exacerbated divisions in the Organization of American States (OAS) and other regional institutions. With or without the U.S., summit meetings of the hemisphere’s leaders have become more acrimonious and less useful. By withdrawing from the Andean Community and joining the Mercosur, Chávez badly damaged both South American trade pacts. Last year, Latin America was the only region of the world unable to reach consensus on who should be its representative on the UN Security Council. Mistrust of their neighbors, every country in South America today seeks energy independence.

Chávez is a source of disarray. But his influence should not be exaggerated. The two South American trade pacts, and hemispheric trade talks as well, were in difficult straits before he became a central actor. The OAS has long been a troubled organization. Much of the discord among Latin America countries has little to do with Chávez. Few governments support his strident campaign against the U.S. Nor do they see oil-rich Venezuela as much of an economic or social model. They know that Hugo Chávez’s “21st Century Socialism” has little to do with socialism; it is mainly about amassing power, keeping himself in the spotlight, and defining the United States.

**Losing Latin America**

Chávez is not responsible for the waning of U.S. influence and credibility in Latin America. The opposite is more nearly true. Washington’s diminished authority paved the way for the Venezuelan leader’s rise. The decline mostly reflects the substantial changes that have taken place in Latin America and its relations with the rest of the world—and Washington’s bad policy choices.

As Latin American countries reformed and opened their economies, they inevitably became more and more integrated into the world financial system, and less reliant on the U.S. Even Mexico and Central America, which are economically coupled to the U.S., have developed an array of commercial ties with Europe, China, Japan, and India. The U.S.’s strongest economic partner in South America, Chile, has free trade ties with countries across the globe, including China and Korea. The emergence of China and India as global actors has expanded Latin America’s political horizons and economic opportunities—and reduced Washington’s ability to shape events in the region.

What was not inevitable was the erosion of U.S. credibility in the region or the rapid upsurge of anti-American sentiment—consequences mostly of the Iraq invasion and the subsequent conduct of the war. The combination of brutality and failure has been disastrous for Washington’s image in a region long wary of U.S. power. Abu Ghraib and Guantanamo made Washington look hypocritical. For years, the U.S. government has lectured Latin American nations about human rights and the rule of law (including countries confronting their own terrorist movements), but seemed all too ready to backtrack on these principles when U.S. security was at risk.

Washington’s policies in the hemisphere also bear blame. With the U.S. so totally absorbed by the Middle East, it is not surprising that the Bush Administration has been unresponsive, even indifferent to Latin America. And when it has tried to engage, it has often been either ineffectual or overbearing and uncompromising.

Mexicans and Central Americans, for example, were dismayed by President Bush’s failure to deliver on his promise to make U.S. immigration practices less punitive and more welcoming. Mexican Foreign Minister Jorge Castaneda once talked about Washington approving the “whole enchilada” of changes favored by Mexico. Instead, the only new legislation that has emerged is focused exclusively on law enforcement. The proposal to erect a wall on the U.S.-Mexican border is particularly offensive. And the U.S. debates over immigration, tinged with anti-immigrant and anti-Hispanic sentiments, have sounded mean-spirited and degrading to Latin America.

Trade policy has been an area of some success for the Bush Administration. Although hemispheric negotiations collapsed, Washington has concluded bilateral free trade agreements with ten Latin American nations in recent years. Yet, these agreements have not generated much good will for the U.S. The rigidity of U.S. negotiating positions and the perceived one-sidedness of the resulting deals have rankled even the strongest proponents of free trade. The fact is that Washington cannot be a fully reliable negotiating partner as long as congressional Democrats and Republicans are so profoundly divided on trade issues—and agreements are ratified by one or two votes. That leaves no room for flexibility.

The Democratic takeover of Congress this year put in limbo the signed trade pacts awaiting congressional action. In a rare moment of bipartisanship on trade issues, the White House and key congressional Democrats were able to reach accord on a small package of amendments focused on workers’ rights, intended to speed ratification. But it now appears likely that only one of the pacts, with Peru, is likely to be approved in 2007. The agreement with Colombia faces the most problems because of the vehement opposition from the AFL-CIO and broader concerns about human rights in the country. Colombians are frustrated and embittered by the prospect of a long delay, or rejection, of their trade pact. They believe that more than most other countries, deserve a free trade agreement with the U.S. because Colombia has been Washington’s most dependable ally in Latin America in recent years. And it has made important progress in containing criminal and political violence, extending the rule of law, and reducing rights abuses of all sort. Leaving Colombia out will raise questions across Latin America about the reliability of the U.S. as a partner.

On several issues, the U.S. remains out of step with the great majority of Latin American countries. The most conspicuous is Cuba. Every other government in the hemisphere has diplomatic relations and normal economic ties with the island. Latin American or Caribbean nations overwhelmingly support the U.S.’s embargo and support a U.S. dialogue with Cuban President Raúl Castro and other Cuban authorities. Washington’s claim that its Cuban policy is driven by democracy and human rights considerations rings hollow in Latin America.

Most Latin American governments now agree with Washington that the illicit drug trade is a worsening tragedy for the hemisphere and that user, transit, and supplier countries should work together to address the problem. But Latin American governments are frustrated that the U.S. strategy seems frozen in place. They would like to open up a real debate on alternatives, but Washington has been largely deaf on this issue.

And Washington has also seemed largely indifferent to Latin America’s deep and pervasive social ills—focusing mostly on problems related to trade, finance, drugs, and migration, all issues of direct and immediate interest to the U.S. Although the Bush Administration has modestly increased financial aid to Latin America, Chávez’s Venezuela is seen as far more responsive, even by his opponents. On his visit to Latin America earlier this year, President Bush tried to change that perception by emphasizing a U.S. commitment to help address the region’s social needs. Latin Americans remain deeply skeptical, however.

Finally, Latin Americans often bristle at the style, the U.S. demands, and the attitudes that underlie them. With some justification, they feel that Washington still views the region as its backyard and expects governments there routinely to follow the U.S. lead. They resent being treated as the hemisphere’s second-class citizens. Latin America’s leaders were offended by the Bush Administration’s hostile and dismissive attitude to their objections to the Iraq invasion. Almost universally, Latin
American governments consider the U.S. to be too openly confrontational toward Venezuela, and recoil from continuing U.S. pressure to publicly oppose and condemn President Chávez. Many objected to the style and substance of several recent heavy-handed U.S. campaigns—to limit the jurisdiction of the new international criminal court, to defeat Venezuela’s candidacy for a temporary seat at the UN, and to promote its own hand-picked candidate for OAS Secretary-General. Latin Americans may simply begrudge the U.S. for its power and influence. But at times, they have reasons to resent how the U.S. uses its power.

Does Latin America Matter for the U.S.?
Hosting Mexican President Vicente Fox at a state dinner in early September 2001, President Bush declared that “no relationship in the world is more important to the U.S. than its relationship with Mexico.” And it is true that there are few countries where U.S. interests are more extensively engaged.

Mexico is the U.S.’s third largest trading partner, after Canada and China. Bilateral trade amounts to more than $300 billion a year—or some 60 percent of all U.S. trade with Latin America. Mexico is also a major oil exporter to the U.S. and a prime destination for U.S. overseas investment. More than one-half of the 40 million U.S. residents of Latin American origin are Mexican or Mexican descendants.

Undocumented immigrants from Mexico make up some 60 percent of the U.S. total. With a 2,000-mile-long common border that is crossed 250 million times each year, Mexico presents a multitude of security concerns for the U.S. More than one-half the illicit drugs entering the U.S. also cross that border. Asylum-seeking Latin Americans are served when Mexico is effectively governed, politically stable, economically prospering, and cooperating to resolve shared problems. Political or economic crises put U.S. interests at risk, invariably sparking new immigrant flows, diminishing trade and investment opportunities, and reducing Mexico’s capacity for cooperation on many fronts.

By any quantitative measure, what happens elsewhere in Latin America is less important to the United States. The rest of the region is not central to U.S. security; it is neither a source nor a target of international terrorism. Economic relations with South and Central America are expanding, but they are modest compared to Mexico. All of South America’s trade with the U.S., including the oil from Venezuela, is 40 percent of that of Mexico’s. Trade with Brazil, the second largest U.S. partner in Latin America, amounts to little more than one percent of U.S. trade worldwide. Still, an economic crisis in Brazil, the eighth largest economy in the world, would have destructive spillover effects across the region, which could importantly damage the U.S. economy. And Brazil is a country that could become much more economically consequential to the U.S. if it sustains a healthy rate of growth and continues to open its economy.

Events in Venezuela are important to the U.S. because that country provides about 12 percent of U.S. oil imports. Any interruption in the oil flow could turn very costly to U.S. consumers and the U.S. economy—but this is unlikely any time soon. Venezuela’s leaders, no matter how anti-American their rhetoric, know their nation’s economy depends on exporting petroleum to the U.S. Yet, with its army, which is close ties to Iran and other U.S. adversaries, and its massive arms build-up, Venezuela is potentially a source of insecurity and vulnerability for the rest of Latin America.

Latin America’s significance to the U.S., however, goes beyond specific economic interests, security issues, or the consequences of uncontrolled streams of migrants and drugs. It is natural for Washington to invest more to promote democratic politics and market economics in Latin America than other regions. This is the U.S.’s neighborhood, after all—the only place where the U.S. is a full member of regional organizations, where the U.S. president actively participates in periodic summits with all other heads of state, and where the U.S. has sought to negotiate a region-wide free trade arrangement.

Latin America is the only place where Washington can have a “good neighbor” policy. Having neighbors that share its values should be reassuring to the U.S. If democratic politics and market economics prosper in Latin America, Washington gains needed credibility and experience to pursue these aims elsewhere. If U.S. democracy building fails in its own neighborhood, where can it plausibly succeed?

The Next President’s Latin American Agenda
Latin America will not be a foreign policy priority for the next U.S. president. It will not be a central front in the war on terrorism. Aside from Colombia’s long-running conflict, Latin America is a region at peace, largely free of armed conflict within or between countries. Nor is Latin America expected to offer the oversized economic opportunities of rapidly-growing China and India. Illicit drugs and undocumented immigration are important issues, but they are old, contentious problems that have mostly divided the U.S. from the region. The challenge for a new administration will be to find a way to conduct a constructive and cooperative policy toward Latin America while the region remains a relatively low priority—and U.S. influence in the region is at a low ebb.

Western Hemisphere policy has been largely derivative or residual. It is most often driven by a combination of Washington’s broader international agenda, powerful domestic interests, and the demands of national and local politics. Policy choices rarely respond to concrete U.S. interests in Latin America or to the needs of the region. The countries of Latin American trade agreements, for example, emerge from the cross-cutting pressures of many domestic groups—agricultural producers, drug companies, environmental activists, labor unions, and others. Because it engages such deep political passions, immigration policy has been managed exclusively as a domestic issue, as if it did not affect our relations with other countries or their attitudes and behavior toward the U.S. Anti-narcotics strategies are mostly driven by local and national law enforcement agencies in the U.S. Cuba policy, more than anything else, responds to the demands of Cuban-American politics.

Nonetheless, the next president can make a difference—if he or she is prepared to exercise leadership and to challenge the domestic political and economic interests that now shape the contours of Western Hemisphere policy. It has been done in the past. The Alliance for Progress or the Panama Canal Treaties were not derivative—nor were the NAFTA trade agreements, the first President Bush’s initiatives for debt relief and regional trade, or President Clinton’s rescue package for Mexico.

So, what has to get done now? What policies would best serve U.S. interests in Latin America? What would it take for the next U.S. president to restore this country’s influence and standing in Latin America—and rebuild cooperation with the region’s governments?

Washington’s first hurdle will be to demonstrate renewed respect for international rules and institutions. That has to be the starting point for repairing U.S. relations with Latin America. The U.S. cannot be seen as arrogant or high-handed in global or regional affairs. It cannot claim the right to invade other countries preemptively or take decisions unilaterally against a consensus of other nations. And the U.S. needs to play by the rules it wants others to follow. It cannot be a significant voice on human rights when it condones torture and denies its prisoners fair trials. It cannot be a credible defender of democracy when it seeks to influence the outcome of other nations’ elections.

Second, Washington’s policies, while serving U.S. interests, have to be made more relevant to Latin America’s own needs—for faster and more stable growth, a sustained reduction in poverty and inequality, moderation of political and social tensions, and progress against a seemingly endless wave of crime and violence.

Economic Cooperation
What Latin American nations mainly want from Washington is greater access to U.S. mar-
kets, investment capital, and new technologies. That is why the bulk of them have sought free trade agreements or trade preferences from the U.S.—and why the lead item on the next president's Latin American agenda should be the development of a new strategy for regional economic cooperation. With the Free Trade Area of the Americas (FTAA) discredited, there is today no plan, framework, or clear objectives for advancing economic cooperation in the hemisphere.

The White House's most difficult challenge will be to fashion a bipartisanship approach to regional (and international) trade policy. For the U.S. to play a lead role in shaping a coherent economic strategy in the hemisphere, Democrats and Republicans in Congress will have to resolve their deep division over trade matters. Key congressional Democrats and the White House were able to find common ground on the contentious issue of lifting labor rights into trade pacts, and they should be able to make progress on other sticking points. They will especially need to agree on measures to compensate U.S. workers for the dislocations that expanding trade and technological change invariably produce. And they will have to renew the White House's expired authority to negotiate trade deals.

Brazil at the Pivot

Washington will have to systematically engage Brazil in the search for greater hemispheric economic cooperation. More than anything else, it was the failure of Brazil and the U.S. to reach agreement that paralyzed the FTAA negotiations. No new hemisphere-wide trade or economic proposals can prosper without the support of both nations.

Brazil is a crucial partner for the U.S. on many other issues as well. Indeed, inter-American relations today largely pivot around Brazil and the U.S. When the two countries find grounds for cooperation, most others will join in. When they cannot, the hemisphere usually remains divided or fragmented. Good relations with Brazil are vital to Washington's credibility in the region, and to expand opportunities for both countries to pursue their interests. As a welcome side effect, they help to offset the influence of Hugo Chávez.

Washington and Brasília are not always natural partners. They have lashing positions on many critical matters, even as they often find ways to cooperate. In response to Washington's urging, Brazil agreed to command UN peacekeeping operations in Haiti. Their recent agreement for cooperation on biofuels development could add a potentially far-reaching dimension to the countries' bilateral relations (particularly if the U.S. lowers import barriers to Brazilian ethanol). The two nations ended up on opposite sides in the recent crucial Doha round negotiations, however, and disagree on how to respond to the challenge of Hugo Chávez.

The next administration will have to sustain a constructive relationship with Brazil to advance its agenda in the region (and beyond). That will require the U.S. to accept Brazil's foreign policy independence and accommodate the differences in perspective between the two countries.

Mexico and Immigration

No country in the world has a more varied and extensive set of relations with the United States than Mexico. The routine, day-to-day elements of the relationship require persistent attention from both Washington and Mexico. But Mexico, like Brazil, should also be regularly consulted on regional and global issues because it too is a country with broad international interests. Over the longer term, the core challenge will be how to manage the continuing, irreconcilable integration of the U.S. and Mexico, which is fiercely resisted by many in both countries.

U.S.-Mexican relations are buffeted by a long string of critical issues—energy, trade, security, drug trafficking, and violent crime, for example. But, immigration sits at the vital center. This, more than any other issue, will determine the quality of U.S. bilateral ties with Mexico for many years to come. And Washington's approach to immigration is a central policy matter for many other countries of Latin America as well—and has a powerful impact on U.S. relations across the region.

The rancorous debates this year about immigration reform and its stunning defeat in the Senate make it hard to imagine a constructive change in policy any time soon. Yet immigration will almost certainly be on the agenda of the next president. The question is whether it is possible to craft a policy package that, on one hand, can gain U.S. public support and congressional approval and, on the other, will be viewed as even minimally acceptable in Latin America. Mexico and other countries will certainly not be satisfied with legislation that does not include a reasonably-sized temporary workers program and a path to legal status (and eventually citizenship) for the 12 million immigrants who entered the U.S. unlawfully. And any new U.S. laws that are seen as unduly punitive to illegal immigrants will offend most of Latin America and make any short-term U.S.-Latin American cooperation on migration virtually impossible, and may set back relations on other fronts as well.

The Social Agenda

The social agenda—alleviating poverty, reducing income disparities, ending racial and ethnic discrimination, and fixing broken public services—is Latin America's most critical challenge. And it provides the next administration with its best opportunity to demonstrate renewed U.S. relevance to the region and replenish its short supply of good will in the region. Additional financial commitments will be required, but what Washington modestly has to do is reconfigure current U.S. programs and policies so they are directly germane to Latin America's social needs.

U.S.-promoted free trade agreements, for instance, are spurring exports and investment, helping to accelerate growth, and creating new jobs—all essential for addressing poverty and inequality. But complementary policies are needed to assure that the benefits of trade reach excluded groups, and to compensate losers. The U.S. should show concern about the distribution of gains from the trade agreements it negotiates. Similarly, by shifting anti-drug funds away from crop eradication toward development and job creation in coca growing regions, Washington could turn the war against drugs into a war against poverty as well.

To improve the living standard of Latin America's poor, Washington should, whenever possible, add a robust social dimension to programs and policies in the region.

Other Initiatives

There are other policy changes that would align U.S. policies more closely to the interests and objectives of Latin America, while advancing U.S. interests. Some of the most important are:

- The next president of the United States will assume office a half-century after Fidel Castro took power in Cuba. Latin America would warmly welcome a decision by Washington to dismantle the web of restrictions it now imposes on the island—and to join with the other countries of the Americas to work toward a successful reunification of Cuba into hemispheric affairs.
- It is also time that the U.S. work with Latin American partners to define a new multi-lateral strategy to combat drugs and associated criminal activity. The current U.S. approach is inflexible and unresponsive to specific national circumstances, and it is too narrowly focused on crop eradication and drug interdiction. Washington could also do more to respond to Latin American calls for the U.S. to cut its drug demand, stem the flow of guns that fuel violence in the region, and invest more in alternative development programs.
- Whatever problem Hugo Chávez poses for the U.S. will be sharply diminished if the
U.S. is broadly engaged with the region and its policies are generally aligned with the interests of Latin America. But the U.S. also needs to carry out a consistent strategy toward Chávez, one aimed at minimizing his disruption of hemispheric affairs and supporting greater democracy in Venezuela (although only through constitutional means). It should not expect other Latin American governments to unite behind anti-Chávez initiatives.

- Washington should also do all it can to remain helpful to countries like Bolivia and Ecuador that have allied themselves with Venezuela. Efforts to isolate or punish these countries will be counterproductive, pushing them closer to Chávez and alienating other Latin American nations.

The new administration does not have to advance on all these policy fronts simultaneously, but it does have to set the right tone and direction, and make some headway on key issues of style and substance. Even a few sentences about Latin America in the next president’s inaugural address would be a helpful start. The president might suggest that the U.S. is ready to join with the nations of Latin America in a common effort to address their problems—and that Washington needs their advice and help in dealing with hemispheric and international challenges. It would be an opportunity to highlight the importance of rebuilding mutual trust and respect in inter-American relations and to emphasize how important Latin America’s economic and political success is to U.S. interests.

Later in the year, the president will have the opportunity to reinforce that message at the next Summit of Americas Trinidad-Tobago, where Western Hemisphere heads of state will be gathering for the sixth time since 1994. The other 33 leaders will be taking measure of the next president and listening carefully to what he or she says about Washington’s plans for dealing with inter-American issues. With every sustained and respectful partnership with Latin America—that it is willing to break out of old habits and patterns, listen carefully to advice from the region, and turn to multilateral and cooperative approaches. The new president is likely to find that Latin Americans are ready to work with a U.S. administration that is willing to work with them.

(Please note that a revised version of this essay will be published by the Foreign Policy Association in its “Great Decisions” volume for 2008.)
U.S. Policy in Latin America

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November 27-December 2, 2007

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U.S. Policy in Latin America

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Guatemala, Costa Rica
November 27—December 2, 2007

Mexico—U.S. Border Issues and Bilateral Relations
Pamela Starr, University of Southern California
(Roundtable Session)

After one year in office following a decidedly contentious and narrow election, the president of Mexico, Felipe Calderón, has taken important steps to consolidate, and importantly, to expand his mandate. Ranging from tax reform, to aggressive moves to address Mexico’s growing vulnerability to drug-based criminal syndicates, to poverty reduction programs, the Calderón administration has demonstrated political dexterity in beginning to tackle some of Mexico’s toughest challenges. And despite continued failure of immigration reform in the United States, Mexico has likewise pursued deeper cooperation with the United States on security issues, while working to rekindle its diplomatic profile in Latin America. What prospects does President Calderón have for further economic reforms? Will immigration policy and other border issues be substantially improved under the Calderón government? Have successes in the first year of his administration diminished the kinds of political and social discontent that nearly delivered the presidency to Andrés Manuel Lopez Obrador?

Venezuela: National, Regional and Global Pretensions
Javier Corrales, Amherst College
(Roundtable Session)

With the price of oil hovering close to $100 per barrel, a resounding re-election in 2006, some of the highest approval ratings in Latin America, a weakened political opposition, and further consolidation of control over all branches of government, Venezuela’s President Hugo Chávez is poised to remain in power perhaps through the year 2021. How might Venezuela evolve in that period? What is the nature of the social and political institutions Chávez is creating? What is the state of the oil and gas industry? What are Chávez’ regional aspirations and how are they manifest? On the global stage, what motivates Chávez’ growing ties with countries such as Belarus, Russia, and Iran?

Latin American Political Developments and Their Significance for the U.S.
Abe Lowenthal, University of Southern California
(Roundtable Session)

Between 2005 and 2006 Latin Americans in 15 countries elected new heads of state. From Brazil to Mexico to Nicaragua to Chile, Latin American electorates have registered their disaffection with the limited success of market reforms in improving inequality, poverty, and personal security. Is the left in
power in Latin America? If so, where? What does it mean to be a populist in Latin America? What does it mean to be on the left? Has democratic governance become stronger or weaker in recent years? How has the U.S. stress on trade security and democracy fared under newly-elected heads of state? Is there a common agenda that the United States and Latin America can pursue? If so, what is it?

Challenges for U.S. Policy in the Hemisphere

Peter Hakim, The Inter-American Dialogue

(Roundtable Session)

Many observers argue that U.S. relations with Latin America have reached their lowest point since the end of the Cold War. Despite the informal ties that bind societies in Latin America and the United States, and despite the formal ties of trade agreements and bilateral security cooperation, the United States has plainly lost influence in Latin America. What have been the practical consequences for the United States of this deterioration? How badly, in fact, have the U.S. agenda and U.S. interests been damaged? What will be the impact of a continuing erosion of U.S. influence in the region? What, if anything, can the U.S. do to repair relations? What U.S. policy changes are needed to rebuild more cooperative and constructive ties with Latin America?