

HEMISPHERE INSIDER

*Up close***A New Narrative for Mexico**

News stories on violence, drug trafficking, and illegal immigration conjure a bleak image of Mexico that, while accurate in some regards, outshines important achievements and paints an incomplete picture. In fact, Mexico has recently emerged as one of the Western Hemisphere's more robust economies, boasting a booming business sector, an auspicious social welfare programs, rising opportunities for the poor, and greater transparency in governance.

In spite of a global economic crisis and its own tenuous security situation, Mexico's economic growth has picked up pace during the past decade. In 2010, it grew 5.5 percent, and economists predict it will grow another 4.5 percent this year. Partly responsible is a vibrant manufacturing sector. A number of U.S. companies continue to operate factories in cities like Juárez, employing workers at relatively high salaries for Mexico. The gap between the rich and poor remains large—the wealthiest 10 percent of Mexicans dominate 42 percent of income, and nearly 40 percent of Mexicans still live in poverty—yet incomes have risen across the board and poverty has declined since 2002, when more than half of the population lived under the line.

Along with increased job opportunities, Mexico's social welfare

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*Program Highlights*

Coordinator of Colombia's Plan de Consolidación Alvaro Balcazar at CSIS.

Returning Government to Colombia's Post-Conflict Zones: A Light Footprint

On Wednesday, July 13, the Americas Program hosted "Returning Government to Colombia's Conflict Zones: A Light Footprint." The panel discussion focused on the Integrated Governance Response Program (IGRP), developed by the government of Colombia, with the support of USAID's Office of Transition Initiatives (OTI)

In opening remarks, Assistant Administrator for the Bureau of Policy, Planning, and Learning at USAID Susan Reichle, noted Colombia's efforts to return government to former conflict zones, highlighting the importance of host country political will.

Álvaro Balcázar, First Civil Coordinator of Colombia's Plan de Consolidación Integral de la Macarena (PCIM) discussed the achievements used to measure success:

- ▶ Ensuring citizen safety,
- ▶ Eradicating illegal crop cultivation,
- ▶ Ensuring transition activities to build citizen confidence, while incorporating a vision for long-term sustainability,
- ▶ Development of public institutions, especially at the municipal level, and
- ▶ Establishing land restitution and property rights.

Diego Meyer Artunduaga, Mayor of San Juan de Arama spoke of the successes of programs in his city, such as *Colombia Responde* and *Acción Social*, in fostering a heightened sense of community in areas that were once fiercely divided.

Comments by Americas Program Senior Associates Johanna Mendelson Forman and Phillip McLean, and Robert Lamb, Senior Fellow and Director, Program on Crisis, Conflict, and Cooperation concluded the event.

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program, *Oportunidades*, has helped. Based on conditional cash transfers, *Oportunidades* gives poor families cash incentives to send their children to school, receive periodic medical attention, and attend state-run workshops on nutrition. These have had remarkable success in rural areas, where 42 percent more children are attending middle school and 85 percent more attend high school. Other social services have also improved, broadening the reach of electricity, water, and trash collection to the majority of homes in areas that once had none.

Political institutions and governance have also made important strides. Drug cartels and other organized crime groups threaten local campaigns and infiltrate law enforcement in certain areas. Nevertheless, recent state and local elections proved relatively clean, and the country's three major political parties have vowed to arm political candidates against criminal organizations to stymie the flow of illicit campaign funds. On a national level, President Calderón has achieved legislative majorities to pass important judicial reforms and electoral laws that will foster greater transparency.

Moreover, a burgeoning middle class has fostered a stronger civil society that could further build pressure to make government accountable. The number of nongovernment organizations focused on democracy, human rights, and security issues have nearly doubled in the last decade, by some counts.

While violence still looms over Mexico and presents daunting challenges to economic, social, and political progress, Mexico's successes behind the headlines reveal a more promising picture of a country that has gradually chipped away at obstacles to growth and good governance to build a foundation from which it will be better able to combat corruption and criminal organizations in the future.

—Caitlin Watson

In Brief

North America

Canada

A permit awaits approval on U.S. secretary of state Clinton's desk. Yet, environmental groups such as the Natural Resources Defense Council and Northern Plains Resource Council warn that TransCanada's proposed Keystone XL pipeline is more dangerous than the company lets on. A break in an existing pipeline resulted in a 1,000 gallon crude oil spill into the Yellowstone River in July about



20 miles north of Billings, Montana. The Keystone XL would run under the same river, bringing 700,000 barrels a day of tar

sands crude from Alberta to U.S. gulf coast refineries. While the National Environmental Policy Act requires the corporation to prepare an Environmental Impact Statement, an independent study at the University of Nebraska published by Friends of the Earth claims TransCanada underestimated the severity and the frequency of the expected spills.

The pipeline would cross an aquifer, which if contaminated would affect the drinking water of more than 2 million people. The Environmental Protection Agency also estimates that tar sands crude releases 82 percent more greenhouse gas emissions than conventional crude, from well to tank. Opponents of the pipeline want further safety requirements and a promise to cover the cost of restoring water supplies in the case of contamination. On the flip side, the \$7 billion project would create 20,000 jobs, according to TransCanada. Keystone XL would run 25 feet beneath the Yellowstone River, compared to the existing pipeline's 5 to 8 feet, and reportedly go beyond Pipeline and Hazardous Materials Safety Administration standards.

—Jordan Franklin

Mexico

Fewer Mexicans are coming to live in the United States than at any point in the last 60 years. According to the Pew Hispanic Center, the number of undocumented migrants crossing the border dropped below 100,000 in 2010, compared with about 525,000 annually between 2000 and 2004. Factors may be a growing Mexican economy, fewer U.S. jobs, and tougher U.S. immigration laws. However, there may be fewer immigrants because there are fewer Mexicans. Fertility rates in Mexico have declined significantly in the last three decades. During the 1960s, Mexican households averaged 7.2 children. That number dropped to about 2 children per household in 2010. Better access to higher quality education, rising family incomes, and lower unemployment in Mexico have slowed the flow across the border. A shrinking population reinforces these trends by boosting domestic labor demand while relieving pressure on social programs aimed at the poor that formerly were stretched thin.

As Mexican outmigration subsides, the United States could see the decline of a critical component in its workforce. In 2009, there were 7.8 million unauthorized immigrant workers. Undocumented Mexican migrants make up close to 20 percent of work crews on southwestern U.S. farms that produce half of the nation's fruits and vegetables. Some are already suffering from smaller than normal crews. While the availability of fewer undocumented workers could mean more jobs for unemployed U.S. citizens, few are willing to take such jobs. Moreover, fewer migrants mean fewer consumers to fuel the retail economy. How this decline will affect the U.S. immigration policy debate remains to be seen. However, the decrease in pressure to deal with undocumented workers could make for a more rational national discussion.

—Samantha Burns

South America

Peru

Peruvian president Ollanta Humala announced largely moderate cabinet picks last month, allaying concerns among economists and investors that he might reverse Peru's economic success. Peru's growth has been the highest in Latin America for almost a decade, per capita income has doubled, and the poor make up only 35 percent of the population, down from 55 percent six years ago. The announcement of Peru's new economic team will likely calm fears from Humala's 2006 presidential campaign when he aligned himself with Venezuela's populist leader, Hugo Chavez. Humala will retain Julio Velarde as head of the Central Bank. Velarde, appointed in 2006, helped triple foreign reserves and reduce inflation. U.S.-educated economist Luis Miguel Castilla will serve as finance minister and businessman Salomón Lerner as prime minister. News of the business-friendly team led Lima's general stock index to its biggest one-day gain since the election.

Assuring investors and continuing to expand the economy will be vital to Peru and to Humala's global image. However, Humala must be careful to court conservatives and moderates without alienating his progressive base, to whom he promised higher wages and pensions, better social services, and controls on foreign companies operating in Peru. The announcement of left-leaning Rafael Roncagliolo as foreign minister will help on that front. Another surprising cabinet pick was Afro-Peruvian singer Susana Baca as minister of culture, adding social inclusion to the mix.

—Caitlin Watson

Brazil

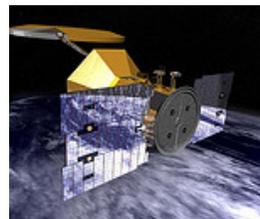
As the Brazilian economy continues to expand, foreign retailers like French giants Carrefour and Casino are competing for access to its lucrative markets. A planned merger between Carrefour, a major supermarket chain, and Brazilian Companhia Brasileira

de Distribuicao Grupo Pão de Açúcar (CBD) would have produced the largest supermarket chain in Brazil and one with retailing power beyond Brazil's borders. However, it turns out that the major shareholder in CBD is Carrefour's rival Casino, which threw a monkey wrench in the corporate plans. The Brazilian National Development Bank (BNDES) withdrew funding after Casino shareholders rejected the merger, causing the deal to fall through. Carrefour stated that it hopes to continue expanding its Brazilian operations regardless of the setback. Given the huge potential of Brazil's markets, other investors may step in to help it do that.

Brazilian policy concerning the withdrawal of BNDES funding for the merger reflects a growing suspicion of monopolies. A recent statement by the country's antitrust agency set back plans for a similarly large merger between food producers Sadia and Perdigao. Some of the attention on food markets stems from the recent volatility in food prices. With sugar prices on the rise and food security a significant policy concern, there is pressure to preserve competition and keep prices low. On the other hand, blocking mergers could irk investors crucial to Brazil's desires for business development. —Paul Shortell

Argentina

The launch of an Argentine-built satellite June 11 from the Vandenberg U.S. Air Force Base in California was a further sign of Argentina's technological achievement.



It also drew attention to the country's successful strategy of connecting its scientists and laboratories to a worldwide network of cooperation with some of the world's most important space programs. The SAC/D-Aquarius satellite, valued at \$287 million, was launched in California, but the mission control is in Cordoba, Argentina. Built by INVAP, a company jointly owned by the Province of Rio Negro

and the Argentine federal government, it carries instruments belonging to space agencies in Argentina, France, Italy, and the United States. With Aquarius circling the earth in a "sun-synchronous, quasi-polar orbit," its main instrument will for the first time provide space-based observations of ocean surface salinity and understanding the links between the planet's fresh-water cycle, ocean circulation, and climate. Italian and French instruments will help measure the profile of temperature and humidity and the effect of space on electronic components. Further signs of the benefits of international cooperation are that the high-temperature camera on board was developed as a result of Argentine-Canadian cooperation and the satellite's structure was tested at a laboratory of Brazil's Institute for Space Research.

Aquarius is the largest joint U.S.-Argentine joint space project, but it is not the first. Cooperation between the United States, through its National Aeronautics and Space Administration, and Argentina, through INVAP and CONAE, the Argentine space agency that also took part in this project, has been growing since the mid-1990, when Argentina sharply reversed its earlier "go-it-alone" space and nuclear policies. By adhering to international standards and nonproliferation agreements, Argentina has opened opportunities for the country's high-tech future. —Carlos Regúnaga

Chile

Student protests have rocked Chile since April, including two in July when more than 150,000 students, teachers, and sympathizers demanded reforms to an education system that they say perpetuates social inequality. In response, President Sebastián Piñera has pledged to explore a constitutional change that would guarantee state-run education for all Chileans. In a step toward more fundamental change, in July, Piñera introduced the Great National Agreement for Education (GANE), a \$4 billion reform plan that will increase scholarships,

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lower interest rates, and reevaluate admissions policies. That plan overlooked many of the students' primary concerns, including increased public funding for universities and full scholarships for lower- and middle-class students. A Constitutional amendment would more comprehensively address equity in education.

This year's protests, like those in 2006 under Piñera's predecessor Michelle Bachelet, continue a long



history of controversy over education. Reforms in the 1980s, under General Augusto Pinochet decentralized and partly privatized schools. Critics claim Chile's poor have been relegated to underfunded public schools, while the country's elite can afford more expensive private institutions. The Organization for Economic Cooperation and Development (OECD) rated Chile as one of the worst of its 34-member countries in terms of income distribution last year. Thanks to the student protests, copper mine strikes, and opposition to the HydroAysen dam project, President Piñera's approval ratings have declined from 63 percent at the time of last October's mine rescue to 35 percent, all in spite of Chile's robust economy. Crafting a long-term, thorough education reform will be key to recovering popularity.

—Meenakshi Krishnan

Economy Update

The Economic Commission for Latin America and the Caribbean (ECLAC) recently forecasted that the region will grow by 4.7 percent

this year, but warns that worsening inflation and possible bubbles in the financial and property markets pose threats. ECLAC predicts that

Introducing Luis Carlos Ugalde, Senior Adviser



The CSIS Americas Program welcomes Luis Carlos Ugalde as a Senior Adviser. Ugalde has held various positions within the Mexican government, including chief of staff to the Secretary of Energy (1997), chief of staff at the Embassy of Mexico to the United States (1997-2000), and president of Mexico's Federal Electoral Commission (Instituto Federal Electoral, IFE) from 2003-2007.

Ugalde has taught at various universities in Mexico and the United States, including the Instituto Tecnológico Autónomo de México (ITAM), the Center for Economic Research and Teaching (CIDE), Georgetown University and American University. In 2008, he was the Robert F. Kennedy Visiting Professor of Latin American Studies at Harvard University.

Ugalde has authored numerous publications, including *As I Lived It: A Testimony of the Most Competitive Election in the Modern History of Mexico* (2008, in Spanish) and *The Mexican Congress: Old Player, New Power*, published by CSIS in 2000.

He received a Ph.D. in Political Science (1999) and a master's degree in public administration (1992), both from Columbia University in New York. He holds a B.A. in Economics from ITAM (1990).

Panama's economy will expand the fastest, growing at 8.5 percent, with Argentina and Peru close behind at 8.3 and 7.1 percent respectively. ECLAC expects the two largest economies, Mexico and Brazil, to expand by 4 percent. Strong consumer demand, job growth, and greater access to credit account for the region's recent economic success. Additionally, unemployment rates are expected to drop to between 6.7 and 7 percent.

The future should look bright for Latin America and the Caribbean, barring fallout from the slow recovery affecting the United States to which their economies are tied. Yet the specter of historical boom and bust continues to haunt. Fears that the expansion could overheat is now a concern for public and private sectors. Property and financial bubbles are a possibility as housing prices have ballooned in recent years. Inflation has also been creeping up as the region experiences higher food and fuel prices. It remains to be seen whether Latin America will repeat history or stay on track to become a strong supporter of the global economy. —Kennon Pearre

Upcoming events

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Aug. 11: Carnegie Endowment for International Peace, "A Conversation with Assistant Secretary of State William Brownfield." Hosted by CSIS, Council of the Americas, and The Center for Hemispheric Defense Studies.

Aug. 28 - Sept. 02: U.S. Chamber of Commerce, São Paulo and Rio de Janeiro, Brazil Export Green Trade Mission: Green Building & Brazil.

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