

# WebMemo



Published by The Heritage Foundation

No. 1387  
March 7, 2007

## Bush's Trip to Latin America: Urge Mexico to Adopt Economic Reforms

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As President Bush prepares to depart for a six-day trip to Brazil, Uruguay, Colombia, Guatemala, and Mexico, many are hopeful that the President's most extensive trip to Latin America signals the Administration's desire to refocus on issues of importance to the Western Hemisphere. The vacuum left by a lack of leadership in the region has resulted in the rise of radical populism and the deterioration of democratic institutions in a number of nations. The White House appears mindful of the importance of this trip, declaring that the President's mission is "to reinforce the common bonds that we share with our Latin American neighbors and to communicate an agenda to advance freedom, prosperity, and social justice and deliver the benefits of democracy in the areas of health, education and economic opportunity."

**Change in the Region.** While Washington has been less engaged in Latin America in recent years, much has changed. Elections in the region have sparked the ascendancy of radical populists in the vein of Venezuela's Hugo Chavez, while traditional leftists, like Alan Garcia of Peru, have moderated and now fully support freer trade and the continued development of democratic institutions. In Mexico, Felipe Calderon won the closest general election in his nation's history on a conservative platform of forging a path toward economic justice, renewed commitment to fighting drug cartels, and dismantling the competition-stifling monopolies of Mexico's corporatist system. These new circumstances should not be a source of fear or anxiety for Washington; rather, they simply illustrate the need for the

U.S. to again play a proactive role in the region by reinforcing principles that will bring authentic solutions to Latin America's hopeless and poor.

**Opportunities Abound.** In light of these shifts in Latin America, it is vital that the Administration seize this opportunity to stress the need for good and transparent governance, the liberating powers of the free market, and the necessity of furthering development and consolidation of democratic institutions. For the U.S., this trip represents a unique opportunity to counter the rise of radical populism and virulent anti-Americanism by forging new, and recommitting to old, cooperative efforts in an effort to find and reaffirm common beliefs and ambitions with temperate elements in the region.

With the recent election of Felipe Calderon, this trip will provide an exceptional opportunity to begin a serious dialogue with Mexico aimed at addressing an issue that affects both nations in immeasurable ways: the mass migration of Mexicans to the United States. Specifically, the President should engage Calderon in an effort to directly confront and rapidly implement needed reforms within Mexico so as to allow more Mexicans to participate in the Mexican economy. A long-term solution to curbing the massive flow of illegals into the

This paper, in its entirety, can be found at:  
[www.heritage.org/research/LatinAmerica/wm1387.cfm](http://www.heritage.org/research/LatinAmerica/wm1387.cfm)

Produced by the Douglas and Sarah Allison  
Center for Foreign Policy Studies

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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U.S. lies in Mexico reforming its corporatist ways. No matter how the U.S. Congress decides to deal with the current immigration crisis, the only lasting solution will involve deep reforms within Mexico.

**Needed Reforms in Mexico.** Mexico has been in a process of a political and economic transformation in the last several years; however, there is much work left to be done. Under Carlos Salinas, Mexico began to reform and open its economy. Then, under Ernesto Zedillo, it embraced representative democracy. Under Vicente Fox, the 70-year political monopoly of PRI came to an end. For over a decade, Mexico has enjoyed macro-economic stability and has committed itself to free and fair democratic elections, to maintaining respect for human rights, and to the preservation of a free and open media.

Despite all of this, it is still a land defined by high levels of poverty and income inequality, huge monopolies that reign over virtually all aspects of Mexican life, all-powerful closed shop labor unions that exercise absolute control over hiring and firing, and political parties that wield immense power through a system of patronage and corrupt practices. This corporatist system has survived, and in some cases thrived, through the transformation of Mexican political and economic life. Its stranglehold on Mexico has led to a highly lopsided economic playing field where a large number of Mexicans see more hope in traversing a 110 degree desert or crossing the U.S. border in the back of a tractor trailer than in finding a decent job in their home nation.

Mr. Calderon has positioned himself as a champion of free markets and of the consolidation of authentic democratic institutions—something Latin America desperately needs in the wake of a rise in radical populism. He has also committed his administration to the reformation of the corporatist and monopolistic structures of Mexico in an effort to increase competitiveness within the Mexican economy and enhance economic opportunities for more Mexicans. He appears to be positioned to be able to implement needed economic reforms that Vicente Fox could not. Mr. Calderon is a former congressional leader of the National Action Party (PAN) and realizes that he will need votes from the Institutional Revolutionary Party (PRI) to imple-

ment needed changes. At the same time, PRI performed poorly in the last election and will need public accomplishments to regain political clout and electability. Mr. Calderon represents Mexico's greatest hope for reform.

**An Agenda for the President.** To support Mexico and encourage needed reforms, President Bush should:

- **Offer further assistance to help combat drug cartels.** The President should applaud Calderon for his recent efforts to combat drug cartels and the vigilance he has shown in dispatching, in the first few weeks of his administration, upward of 16,000 army, navy, and federal police to drug hot-spots. The U.S. should offer financial support for these efforts and continue to forge close cooperative relationships with Mexican law enforcement. It is a positive sign that Mexico has increased its willingness to extradite criminals wanted by the U.S. The United States should reciprocate with a good faith offer of continued law enforcement assistance and financial support.
- **Encourage legislation to break up monopolies and democratize unions.** President Bush should use the framework of the North American Free Trade Agreement (NAFTA) and the newly agreed upon Security and Prosperity Partnership (SPP) to encourage authentic market reforms in Mexico. Mexico enjoys the fruits of being the United States' second largest trading partner despite its unregulated monopolies, closed-shop labor unions, and lopsided market practices. For his part, Calderon should use the Federal Competition Commission (CFC) to break up monopolies such as TELMEX and CEMEX and introduce more competition into the Mexican economy. Mexico should also seriously contemplate removing restrictions on foreign investment in PEMEX, much as Brazil has done with PETROBAS.
- **Urge an end to the system of special interest privileges.** President Bush should stress the importance of creating and maintaining a level playing field by encouraging Mexico to reform its price supports, market protections, subsi-

dies, and tax exemptions and rebates that favor special interest groups—often the powerful labor unions and monopolies. Mexico should reform its tax code to widen the tax base and, in the process, lower overall tax rates. The current system of privileges and tax breaks stifles competition by placing much of the burden on small and medium businesses.

- **Stress the importance of limited, corruption-free government.** As an initial step, the Calderon administration cut pay to the president and ministers by 10 percent in an effort to show a commitment to fiscal reform and responsibility. President Bush should applaud this effort and stress the importance and benefits of limited government with transparency mechanisms in order to put an end to patronage and corruption. Along with market reforms, Mexico must begin to forge a path to responsible and accountable government to ensure that any reform survives this administration.

**Conclusion.** President Bush's trip south represents an opportunity for the U.S. to renew its commitment to Latin America and to confront issues and concerns that have been ignored and gone largely unaddressed. The election of Felipe Calderon in Mexico represents a unique opportunity to realistically address the issue of a mass Mexican migration to the United States. Through loosening the stranglehold that the corporatist system has on the economy, Mexico could allow more of its citizens to play an active role in the economy and to view the future of Mexico with much more hope and optimism. While the U.S. Congress debates short-term solutions to the problem of illegal immigration, an authentic long-term solution to the mass migration of the Mexican workforce to the North can only be found if Mexico reforms its corporatist ways.

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