THE POLITICAL LANDSCAPE IN LATIN AMERICA AND WHAT IT MEANS FOR THE REGION AND THE WORLD

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Topics include:
• How populism, political movements to the center, and fiscal policies in Latin American countries are changing the economic outlook and what the implications are for investors
• What the prospects are for trade in the Americas after the US presidential election
• What challenges and opportunities exist in Mexico

SPEAKER 1: — participating in today’s life session. [SPANISH] from Positiva Compania Seguras, and I will be your moderator today. I would like to introduce to you, for our last session, Mr. Jorge Castaneda. He’s an academic, politician, and author. His career experience has included service of the Secretary of Foreign Affairs for Mexico, as a professor at Princeton University, the University of California at Berkeley, New York University, and the National Autonomous University of Mexico.

He serves as a member of the board of Human Rights Watch and as a regular columnist for the Mexican daily Milenio, the Spanish daily El Pais, and Time Magazine. Dr. Castaneda received a bachelor’s degree from Princeton University, a bachelor’s degree from Pantheon-Sorbonne
University, a master's degree from Ecole Pratique des Hautes Etudes, and a PhD in economic history from Pantheon-Sorbonne University. Please welcome Mr. Jorge Castaneda.

JORGE CASTAÑEDA: Thank you all very much. It’s a pleasure to be here with you in this lovely resort. And since I am, I understand, the last speaker, and the only real obstacle between you all and the cocktail hour, I’m going to try and make this as brief as possible. As a matter of fact, let’s go.

No. Yeah, you see? I knew I’d get takers on that one.

In the — 70 minutes, but it’s not running. The clock? If we can have the clock run, that’d be good. There we go.

The first one point I want to make, which I’m sure you all are familiar with — being many of you either Latin American or involved in the region — is that increasingly today, it’s perhaps a bit of a misnomer to refer to Latin America as a whole. In fact, the region certainly today, more than ever, is divided into two very different parts which have very little in common with each other. And they’re defined, these two subregions of the region, largely by the way they are inserted in the global economy.

South America continues to be like it has been for the last 150 years, a region based essentially on commodities. These are commodity-exporting countries. They are commodity-exporting countries to the entire world. They have been this for the last 100 or so years, a bit more — almost 150 now. Some of them, especially Brazil, have developed an industrial base, but their insertion in the global economy continues to be centered around commodities.

This has a series of implications for each one of these countries. The first and most obvious one is that they fare well when commodity prices are up, the way they were from roughly 2004 or 05 to 2013. And they don’t fare that well when commodity prices are down, like since 2013, with a slight uptick in the last few months.

Secondly, they have a much more diversified economic relationship than the other regions — which I’ll refer to in a second — because they export commodities all over the world and, in particular, of course, the last 15 or so years, to China, which has become the number one commodity exporting destination of practically every country in South America — not all of them, but almost all of them. They export, as you know, iron, copper, oil, soybeans, you name it; practically everything — coffee, coal, gas, everything.

This diversification makes these countries, in a sense, a little less vulnerable to what happens in the world, because they spread their risk, so to speak, to each one of their destinations. Obviously, prices of commodities are all the same everywhere. Each part of the world can grow a little more, or can grow a little less. And then, so, if China is perhaps importing less copper from Chile and
Peru, but perhaps Japan or the United States is importing a little more copper; you have the possibility of playing with that.

No, the United States is not central to any of these countries — this is a main point I want to make — because of this diversification, which is not just in exports. It’s also, for example, in foreign investment. Because most of the investment in these countries continues to be centered in commodities, logically enough.

If the Chinese invest in Argentina, what do they invest in? They invest in soybean land. And if the Chinese invest in Peru, they invest in copper mines. And if they invest in Brazil, they invest either in soybean land or in iron mines — and so on and so forth. This has generated a situation where these countries were doing very well — economically, politically, socially — during the commodity boom years and stopped doing well when the commodity boom years ended. So, this is the first region.

The other region is entirely different. It’s made up, basically, of Mexico, Central America, and the Caribbean. With a few exceptions, these are not commodity-exporting countries. They do export some commodities, but that’s not the center of their insertion in the global economy.

They are either countries that are manufacture-exporting countries, like Mexico and a few of the Central American ones, increasingly, or they are countries whose insertion in the global economy is done essentially through tourism — obviously the Caribbean nations, some Central American ones; through immigration, which is fundamental to almost all of these countries — and is almost non-existent to the United States, at least — in South America, with the exception of Ecuador; through drugs, which are important in some South American countries, of course — Peru and Colombia, but those are only producer countries. The countries in this other region — Mexico used to be called the Caribbean Basin, and it’s a lot easier to use that term than to say, “Mexico, Central America, and the Caribbean,” just call it the Caribbean Basin — simpler. Are fundamental for these countries, in many ways. Some are producer countries, some are transit countries, and some, to a much lesser extent, are consumer countries.

So drugs, immigration, tourism, plus manufactured exports are the way these countries are inserted in the global economy. What does this mean? It means basically that their insertion in the global economy is the United States.

An overwhelming majority of their exports — of the tourists that visit them, of the migrants that work and send back remittances, and of the drugs that go through their country — are all going in the direction of the United States. These countries are much more linked to the US economic cycle than the ones in South America. When the world economy is booming because of commodity prices and insatiable Chinese and Indian demand — mainly for commodities — South America does well. But if the US is not doing especially well, then the Caribbean Basin countries don’t do very well.
And conversely — what we’ve been seeing the last few years, since the US economy recovered — these countries have not been doing as badly as the South American countries, because the US economy was doing better than before, and this was dragging these countries along.

We’ll see when we get to the issue of President Trump, et cetera, that of course, these events are much more important for Mexico and the Caribbean Basin countries, than for Brazil, for example.

I know some of you are Brazilian. I was just in Sao Paolo a couple of days ago at a Credit Suisse conference. And you know, they’re much more obsessed with Eike Batista being thrown in jail and his wig being removed from his head as he entered jail, than with Trump or his hair. Batista’s hair is much more important than Trump’s hair in Brazil today — and rightly so. Unfortunately in Mexico, nobody’s ever heard of Eike Batista, which is not a bad thing, because it would have been a waste of time.

So, this situation of the two regions means that you don’t really have a single region moving together in one direction or another. You have two subregions, which move in very different directions depending on what the global economic cycle is. This situation, particularly in the commodity-producing countries, led to a very interesting phenomenon — which had been present in Latin American economic history many, many times in the past, but we hadn’t seen recently — which was that during the commodity boom, because the previous years had generated — like everywhere, a little bit — an anti-incumbency bias in political systems. People were fed up with the guys who were there before. And it just so happened that the guys who were there before were the ones that had pursued and accomplished so-called structural reforms — trade openings, privatizations, foreign investment, deregulation, et cetera. People sort of got fed up with them, threw most of them out between 1999 and 2005 or 06. And the new left of center, or very much left, governments, that won elections during those years came to power at the beginning of the commodity boom. And so these left of center or left-wing governments were extremely lucky, because they had money to do stuff.

They had money for things like Bolsa Familia in Brazil. They had money for very significant social spending, like in Bolivia, in Uruguay. In Venezuela they spent, all told, because of oil prices, during the entire Chavez plus Maduro years, somewhere near a trillion dollars. Which, in a country of 30 million people over 15 years, is an enormous amount of money. It’s a lot of money.

And they spent it. They stole half of it, but they still spent half of it. And that, for a while, brought the standard of living in Venezuela up. Afterwards it collapsed, but that was a different story.

Most of these left-wing governments were able to be very successful, to get re-elected time after time after time. They tilted the playing field a little bit, granted. But they probably would have been reelected without tilting the playing field, because they had money. They were really on a roll, every one of them: Chile; Peru — less of a left-of-center government, but a little bit; Chile;
Peru: Ecuador; Colombia — not a left-of-center government, but also a bit on a roll; Venezuela, of course; Brazil, of course; Argentina, of course; Uruguay, of course; Bolivia.

What happened when the commodity boom came to an end? Well, they got thrown out, which also happens. Some of them had been in power for too long already.

You have people like Evo Morales in Bolivia, who has now been in office as president for more than 10 years — about 12 years or 13 years — the longest continual president Bolivia has ever had. Granted, they have a lot of presidents there, so 12 years is not really that much, but still. By Bolivian standards, it’s amazing.

You have had people like Correa in Ecuador, who is now leaving for one term but has been in office now for 11 years. You had the PT in Brazil, two terms for Lula, and two terms for Dilma Rousseff. She didn’t serve her second term entirely, but they had been elected to office for 16 consecutive years.

The Kirchners — the marriage, a couple — had been in office, were, until last year, since 2003, 13 years. What happened with all of them? People got a little tired of them. That’s also true. And secondly, the commodity boom came to an end, and their terms in office began to come to an end.

And in country after country, you saw these left-of-center governments, leaders, or parties begin to lose elections. Or if they didn’t lose them, to be thrown out of power in different ways. This led to a sort of general foreign correspondents’ comments, and pundits’ comments, of the “end of the pink tide” or the “reversal of the pink tide.”

I prefer to think of it more in terms of a simple anti-incumbency bias because of the end of the commodity boom — period. Since it just so happened that so many of the governments in South America were left of center, the anti-incumbency bias worked against the left and in favor of more-conservative governments. If it had been the other way around, the same thing would have happened. The right-of-center governments would have been thrown out after being in office for 10, 12, 13 years, where they were very successful, using the money from the commodity boom.

How well did they use it? One can argue. Obviously, the Venezuelans seem to have done a terrible job of using it — absolutely tragic job. Apparently, the Bolivians; the Ecuadorians; to a certain extent, the Chileans; the Uruguayans did a very good job of using this money. And the other one, somewhere in between.

The Brazilians, hard to say how much of the huge steps forward — that were made were taken under Lula for his two terms and part of Rousseff’s term — hard to say how much of that will be reversed, because of the current recession, which has now been going on for two years and is certainly going to last this year at least, if not more. Hard to say there.
The other ones seem to have done very well. And consequently, in all of these countries, poverty declined, inequality finally began to decline. You generally had a very favorable economic, political, and social situation for these years. But they all came to an end. They had to come to an end, and they did.

In the Caribbean Basin countries, you didn’t have this sort of dramatic or radical swing. Because things were not going that well before, and so they started not going that badly after. Because the commodity boom did not affect these countries too much, with a few exceptions, obviously.

For example, countries like Nicaragua and El Salvador, which depended very much on Venezuelan subsidized oil and Chavez’s Petrocaribe and all of the money given to them, to these two governments, by the Venezuelans, and that ran out. Now they’re facing difficulties, indirectly, because of the end of the commodity boom. They don’t really export that much in many commodities, but they depended on somebody else’s commodity. When those guys got into trouble, these guys did, too; the same, of course, with Cuba; to a certain extent, with the Dominican Republic.

Mexico has had a very serious problem with the fall in oil prices from 2013 onward, more or less, but it’s mainly a fiscal problem, because oil is not a significant chunk of Mexico’s overall exports. It’s a very small part, really. It’s about 10% right now, depends on the price and on volume. It ranges, in general, around 10% of total Mexican exports, which is really no big deal. But it continued until a little while ago to make up about 30% of government revenues.

And so you have a… fallen by half of the price of oil. That’s half of 30%. And that’s a big hit on the fiscal side, if not on the trade side.

So, in the region of the central — of the Caribbean Basin — you didn’t have these right-to-left, back-to-right oscillations or swerves, because you never had the commodity cycle working that way. In a sense, you’ve had more continuity in economic policy and social policy, and just about everything, in these countries, than you had in South America, sometimes for better, sometimes also for worse. In other words, Mexico has not had the huge ups and downs that Brazil or Argentina — let’s say, mainly those two countries — have had. It has had sort of a steady state of mediocrity — no big boom but no disaster, either.

And the numbers add up. Mexico now has been growing at an average of 2.2% per year, roughly since 1996. That’s about it, with a couple of good years, 2000; couple of other ones suck — one very bad year, 2009, but because of the world recession and jumped right back. And that’s not a terrible performance in many ways. You haven’t had the booms, but you haven’t had the busts.

This is a little bit where we stand today in terms of these two regions, and what happened with this swerve to the right, which as I say, is more a coincidence because of the commodity boom than anything else. Where does this leave most of the countries in Latin America today? First of
all, the one most, the brightest aspect, the most shining light of all of this, is that democracy or representative democracy, really, seems to have taken root solidly in Latin America today, for the first time, probably ever.

There are significant problems, of course. Probably Venezuela is the most significant problem. There are a few other warning signs: Cuba; the eternal problems in Haiti. But there have been no coups anymore in Latin America. There have been no revolutions. There have been no insurrections. Governments are no longer overthrown by the street. The last one that was overthrown, more or less, was the Honduran president, back in 2009. And he was overthrown, so to speak. It was a legal coup.

Obviously, some people in Latin America, particularly in Brazil, the ALBA countries, consider that Dilma Rousseff’s impeachment was a coup. But it’s a difficult argument to make, at least legally speaking. You can make the argument politically, but it’s very difficult to make the case legally, because the Brazilian constitution was followed to the letter in every step along the way to her impeachment.

That the impeachment took place because of political reasons — well, yeah. That’s generally why people are impeached. Like when Bill Clinton was impeached for fooling around with what’s her name, that was political reasons — well, yeah.

And when Nixon was impeached — or resigned before he was impeached, would have been — it was for Watergate — well, yeah, political things. That’s the way life is. But it’s legal. Democracy seems to have really taken root in Latin America today and that’s a big, big deal, because it has never happened before.

It pretty much looks today, that if you want to get to power anywhere in Latin America, you have to win an election. And if you want to get rid of a guy who is in power in Latin America, you have to beat him at the polls.

Every now and then, there may be other temptations, but these have not worked. And they don’t work, either, when the economic cycle is going up or going down. They don’t work in countries governed by the left, governed by the right, with good governments, with bad governments, with anything. This is now something which seems to be finally a consolidated state of affairs.

And if you look back over the last 200 years, where this was certainly not obvious, it’s a big deal. Even in Colombia, where they like civil-war type of things, that’s what they do.

They had La Violencia in the 50s. Then they had the FARC from the 60s onward. Then they had the M-19 in the 80s. This is the Colombian way of doing things. Well, even the Colombians now have a peace agreement — and a very successful peace agreement — with a highly successful president and very high hopes that this will finally usher in an era of greater economic growth in Colombia.
But good things never come alone. And two big problems, or challenges, are really facing Latin America today, and I’d like to dwell on them a little bit — three of them, in the sense that, before going to some flashpoints.

The challenges are (and one of them is encouraging) violence — not political violence, not repression, not throwing students in jail, or beating people up, or torturing them, or having them disappear, or throwing off helicopters into the sea, and stuff like that. That, every now and then, may still go on, but it really is very scarce in Latin America today.

But I’m referring to a different kind of violence. Violence linked to crime, to gangs, to drugs, to the absence of the rule of law, to the absence of an effective police — whether it’s a national or federal police, or a local one — the absence of an army, where there’s no police that can do police work and do it properly; human rights violations which take place because of this. This is a huge challenge in a bunch of places in Latin America.

The extreme cases are the three countries of the so-called Northern Triangle: Guatemala, El Salvador, and Honduras. Those have the highest ratio of willful homicides per 100,000 inhabitants per year practically of any country in the world. They’re all in the 70s, 80s, and sometimes over 100, per 100,000 inhabitants — which is enormous. To give you an example, the United States is around 5 or 6, and it’s the most violent nonviolent country in the world. The European countries have 1, 2, 3 willful homicides per 100,000 people, even on bad years. And good years, some places could go down to 1. These three countries are in the 70 to 80 range.

Venezuela, especially Caracas, but the country as a whole, is up there, also, in the 50 to 60 willful homicides per 100,000 inhabitants range, which is very high. Caracas is the most violent city in the world, but El Salvador and Honduras are the most violent countries in the world.

And theoretically, there’s no war going on there. That’s the strange part. I guess you could say, there’s Afghanistan, where there are fewer homicides. But still, I could say, logically enough, there’s a war going on.

There’s troops. There’s soldiers. There’s armies. There’s planes. There’s helicopters. There’s a war. People die in wars. Basically, that’s what they’re for. These countries are not at war, and they have incredibly high levels of violence.

Then comes Colombia, which has been able to reduce one type of violence — the guerrilla versus paramilitary versus army type of violence, the violence from the war — but has not that much been able to reduce the violence from the so-called BACRIM, the [SPANISH], or the criminal bands, many of which are former guerrillas, or former paramilitaries, who then just become gangs, criminals.
We’ll come back to the issue of El Salvador, and Honduras, and Guatemala, in a second, because the origins of that violence have a lot to do with what Trump wants to do with Mexicans. But I’ll come back to that in a few minutes.

Brazil has a very high average of willful homicides per 100,000 inhabitants, in the mid-20s — 22, 23 24 — but that’s an average for a huge country. In some places, it’s much less; but in some places, like Rio and Sao Paolo, it’s much more. And that’s where you have these incredible prison massacres, and the number of people who are in jail in overcrowded prisons, et cetera. In other words, Brazil is a country which is facing huge challenges of violence in certain select cities. It’s not the entire country.

The average is not good, but it’s not that bad, either. But the average in a place like Brazil is very unrepresentative. It can be easily mistaken for an even distribution, which doesn’t exist.

And then you have Mexico, which used to be a very scarcely violent country. In 2007, the first year of President Calderon’s term — in a sense, the last year of President Fox’s policies — Mexico had gone down to 8 willful homicides per 100,000 inhabitants, the lowest in our history, since we have numbers. Those two years, 2006 and 2007, were the least violent years in Mexican history.

This is often forgotten, because people often think that President Calderon started his war on drugs because of violence. No, the war on drugs generated the violence. The violence didn’t generate the war on drugs.

And Mexico shot up from around 8 to almost 24, tripling the levels of violence, by 2011 — in five years — up to Brazilian levels. Went down since then, has gone back up again. It’s in the 20-range right now.

This is something that no country has found a good solution to. The countries with traditionally low levels of violence — Chile, Uruguay, Costa Rica, even Nicaragua, after the Sandinista revolution, Argentina, at least the country as a whole — still have low levels of violence. The other areas, it has gone up, and no one has found a proper solution. There just doesn’t seem to be one.

Education? Yeah, but it takes a long time. And in the meantime, the violence continues. Rule of law? Yes, but maybe it’s an effect and the cause of this level of violence. It’s both. And so, it’s hard to figure out where you start.

You start by applying the rule of law in countries where the informal economy is 60% of the economy. How does that work for you? You tell people… you do Giuliani’s type of stuff, the break broken glass, zero-tolerance sort of thing, zero graffiti? How do you do that in a country like Mexico, where 60% of the economy is informal, and on every street corner there’s 10 people selling stuff quote unquote, “illegally”? How do you tell a kid not to break a glass — a window, I’m sorry — if he sees everybody selling junk on the streets?
It’s not easy to impose the rule of law when you have that huge sector. The proper police? Yes, but how do you get a proper police if you don’t have the money to pay them, if you don’t have the training?

The Colombians have been very successful at that. They built up pretty much almost as good a national police force in a much more complicated country, as Chile has. The [SPANISH] in Colombia is almost as effective as [SPANISH] are in Chile. But Colombia received an enormous amount of money from the United States through Plan Colombia, and before that, for that police.

They went through the period of La Violencia in the 50s and have a real backstop to remember where you can go if you mess that stuff up. And so yes, they did OK, but it’s the only experience that more or less has worked — and the Sandinistas in Nicaragua, which strangely enough has one of the most effective national police forces in all of Latin America.

No one has a great answer as to why. It has something to do with the Sandinista revolution of 1979. It’s probably the only thing that really worked with the Sandinista revolution, but it did. Now how they did it, and why, is very difficult.

So, violence is a huge challenge and has obvious economic, social, and political consequences. At some point, these levels of violence become intolerable for societies and something has to give. Nobody knows where it becomes intolerable, but it does.

The other huge challenge, which is in many ways a very promising situation, is corruption. Promising, not so much because I want everybody to be more corrupt than we already are — that’s not what I mean. Some countries are doing it. We’re working hard on it here in Mexico, and we’ve been successful. We have now probably the most corrupt situation we’ve ever had. And that’s not easy in Mexico. We’ve worked hard. It hasn’t come easy.

But obviously, it’s not just Mexico. I mean, in fact, if you look at this stuff, the magnitudes of the corruption in Brazil under the PT are infinitely bigger even than Mexico. The Brazilians have been exporting their corruption. We’ve tried to do that in the past, but we really haven’t been successful. The Brazilians have.

Odebrecht has exported Brazilian corruption to a good 10 or 15 countries in Africa, the rest of Latin America, just about everywhere. And it’s not easy to do. It’s a multinational company, granted. But multinational corruption is not easy. This used to be reserved for the Americans, the Japanese, people like that. Not anybody could do this. Now, the Brazilians can.

The same is true, on a totally different level — which is frankly ridiculous, for my perspective — in Chile, where President Bachelet’s daughter and son-in-law got involved in a corruption scandal which had been tremendously damaging to her. I think something like $10 million. This is what a mid-size, mid-level mayor outside of Mexico City does for breakfast — $10 million is ridiculous
by Mexican or Brazilian standards. It’s silly. And she has had a very, very tough time her entire second period in office, because of that scandal.

And we could go one after the other. Argentina, Cristina Fernandez is going to be thrown in jail. Lula is probably going to be thrown in jail. There’s a certain obvious sympathy, vote for him today. His wife passed away yesterday, and that always generates a certain amount of protection. But everything seems to indicate that he will be thrown in jail.

It looks like at least Humala will be thrown in jail in Peru, and maybe even Alejandro Toledo, not only because of the Odebrecht scandal, but including the Odebrecht scandal. You already have one president in Guatemala and vice president in jail. You will probably have several more. And when the Maduro regime is over in Venezuela, if that ever happens, you will have a bunch of people thrown in jail there because of corruption.

So, you have the two things. Yes, in some countries — Mexico and Brazil in particular — more corruption than ever, magnitudes we could not even imagine before. But on the other hand, the huge progress involved in there being really sunlight for the first time — not in Mexico, but in Brazil, in Argentina, in Chile, in Peru, and a lot of these countries, obviously in Guatemala. This is a huge change and a very positive one.

But it also weakens governments. The fact is, no matter how much a judge throws — Eike Batista, we were just talking about — Eike Batista in jail in Brazil, the government is very weak. Judges can become national heroes in Brazil, but the government is every day weaker, which means it can’t implement the policies that it has to.

So here we have democracy, something consolidated. Violence, a growing challenge; corruption, a growing challenge, but with a silver lining. And in this whole situation, which is a little messy, it’s not an encouraging situation. It’s not a depressing one, but it’s not that encouraging. We have Trump. This is a huge problem for some of these countries, not for all of them, but for some of them.

He’s a huge problem on three fronts: free trade, immigration, and drugs. For countries that are linked to the United States through any one of these three issues, Trump’s arrival is a real unmitigated disaster. There is no other word for it. There is no silver lining. There is no opportunity behind the disaster. There’s nothing good in it. It’s all bad for the countries that have that kind of relationship.

For Brazil, for Argentina, for Chile, it really is no big deal. There will be problems at some point. For example, for all of these countries, if there is a major crisis between the United States and China, and these countries — for them, China is very important. They will be affected one way or another.

I guess they probably should think about this a little more than they are thinking about it. The Brazilians, the Chileans, the Peruvians, should think a little more about this, but it is still indirect.
Argentina: Macri was sort of fooling around with the idea of some kind of free-trade agreement with the United States, sort of leaving Mercosur, forgetting about the Europeans, and trying to get a free-trade agreement with the US. Obviously, that’s not going to happen. That’s over and done with. I never thought it was very likely anyway, frankly. I don’t know that much about it, but my sense is it didn’t make a whole… wasn’t logical, that’s not going to happen.

But the ones who are linked with the United States with free-trade agreements, drugs, and immigration, they are in big, big, big trouble. Obviously, I’ll concentrate in Mexico, but I’m sure we’ll come back to it in the Q&A, but just before, touch on the other countries.

First of all, you have a bunch of countries in South America and in the Caribbean Basin that have free-trade agreements with the US: Chile, Peru, Colombia, CAFTA-DR, DR, and of course, Mexico. There’s a bunch of countries. Obviously, the free-trade agreement that Trump likes least is NAFTA, but that doesn’t mean he likes the other ones. He’s probably just never heard of them. But at some point, he’ll get around to finding out about them, and the day he does, he’s going to rip them up, too.

He doesn’t like them. He will certainly not like CAFTA-DR, and probably not like the Chilean and the Colombian one at all. Because after all, Colombia is a big country, and some jobs have been sent — about five jobs have been sent from the US to Colombia — but he wants those five jobs back.

And he may rip up the free-trade agreement with Colombia, which was so difficult to negotiate, which Santos was finally able to get done after Uribe started the negotiations, was immensely difficult. Immigration, as I said before, it’s not just Mexico. It’s a bunch of places. It’s the Central American countries. It’s of course, Cuba. And it is, of course, Mexico.

And all of these countries can be very negatively affected by Trump’s policies on immigration. It’s not just Mexico. When I said before about how the violence came to El Salvador, Honduras, and Guatemala, one of the main origins of this violence was when the US — and this was a Clinton administration at the end of the 90s — deported thousands of Salvadorans who were in jail in California, mainly Salvadorans, the guys who had formed the [SPANISH] California. These were young kids — Salvadoran refugees or sons of refugees — who got into trouble.

They sent them to jail. They kept them in jail. And there they learned; they got a PhD in crime. That’s what they learned. They weren’t able to go to school, except in jail. And they did get a degree. And the degree was in crime and delinquency. And they learned how to form gangs and recruit people for the gangs, and kill people and rape people and torture people, and do all the things that these gangs do. And then Clinton sent them back to El Salvador with their new skill set, so to speak. And this destroyed these countries. Because they had no possibility of absorbing them, of assimilating them, and no possibility of being after them and not having them reform these gangs in El Salvador and Honduras.
This is what Trump wants to do now, again, with the Salvadorians, and the Hondurans, and Guatemalans who are in the US, but now with the Mexicans, too. He says there’s two or three million Mexicans with some kind of criminal offense in the US.

It really doesn't matter if it's two or three million. If he sends back 200,000 or 300,000 Mexicans who have those skill sets that they acquired in US prisons, it’s going to be an extraordinarily explosive situation for Mexico. Not because of the number — Mexico is a country of 125 million people — we could easily absorb 200,000, 300,000, 400,000 people. Obama deported more than during his first years in office.

But these guys are going to be coming straight from jail, from federal and state prisons. These are really bad — like Trump says — bad hombres. Those are the bad hombres. They are. And sending them back to Mexico is crazy. But anyway….

So, there is the immigration issue, which in addition, has the two-edged sword or knife, which of course is our remittances. Every Mexican, or Honduran, or Dominican, or Jamaican, or Haitian — or Cuban, for that matter, now — who's deported back to their country, is one family less back home receiving remittances. Because a guy who's been sent home can't send any more remittances. That’s the whole point. He can only send remittances if he’s working whatever, in Queens, or wherever he want.

He can't send remittances home from Michoacan because that is home. And that’s a huge problem for countries like the Central American ones or the Caribbean countries, who depend on remittances for up to a quarter of their GDP.

Mexico, in absolute terms, is much more. We actually received last year a record $27 billion in remittances. But given the size of the Mexican economy, $1.2 trillion, it’s not that much. For El Salvador, for Jamaica, for places like that, it’s enormous.

And then drugs. The Homeland Security guy, General John Kelly — who was in Southcom until a couple of years ago, three years ago — is a real hardliner on drugs. He's a drug warrior. He really believes in, let's win the war on drugs.

And he wants to really lock down the United States on drug stuff. And this can be extraordinarily harmful and violence generating in countries like Mexico, Central America, the Caribbean, Colombia also, Peru, also.

President Santos, I think very courageously, stopped the fumigation, and stopped sending the army into drug cocaine or coca leaf growing areas last couple of years. Coca leaf acreage in Colombia has skyrocketed once again. And of course, if acreage goes up, coca paste production goes up, and cocaine powder goes up in volume. And it has doubled or tripled the last couple of years.
I think Santos is right. This is an American problem. What the hell? It’s not our problem. We’ve paid a high enough price in Colombia, and Peru, and Mexico, for this American issue. But a guy like Kelly is not going to listen to that. He’s not going to be happy with this nonfumigation policy, to put it mildly.

So, Trump is a real issue for these countries. As I said, there’s nothing good that can come of it. How these countries and Mexico, chiefly, will resist, it’s hard to say. We’ve only just begun.

Remember, this stuff has only been going on for 14 days. Today’s day 15, and we’re not through it yet. I mean it really is remarkable. There’s something like another 1,453 days left. So, where it’s going to take us, nobody knows.

Mexico will get over it, because we are who we are. There was a poll in today’s paper, or yesterday’s paper, of a former front page. Pollsters asked, how many people think Trump will only last a year, as president? And something like 70% of Mexicans said, yes, only a year. In other words, we basically think he’ll go away.

They didn’t ask why. But if they had asked why, I’m pretty sure I would know what most people would have answered. The Virgin of Guadalupe will help us. Thank you. Thanks a lot.

[SPEAKING SPANISH]

SPEAKER 1: [SPEAKING SPANISH] So, we have a couple of questions from the audience: “What are the prospects for trade in the Americas, after the US presidential elections? What challenges and opportunities exist in Mexico?”

JORGE CASTAÑEDA: It’s the same issue. I can get into a little more detail on the Mexican question. There is, as you know — the Mexicans know it better than the rest of you — but there’s sort of two approaches to — in the government and in Mexican society in general — as to what to do about Trump on trade and on NAFTA.

One is to sort of wait and see what he wants, what changes he would want in NAFTA, whether those changes are acceptable to Mexico or not. And negotiate them as best as we can. And just go through the process and hope for the best, and basically accept the principle of renegotiation, if not necessarily every detail.

The other point of view is that, if that is what he wants, and this implies a real renegotiation, which means it has to be sent back to the three legislatures — parliament in Canada, House and Senate in the US, and Senate in Mexico — when the negotiation is over — a negotiation which inevitably will take a year, maybe a year and a half — that it’s not worth it, that Mexico should just say no.
If the Americans want to leave, let them leave. We’ll go just to WTO rules, and do the best we can. But waiting for two years and the legislative process, with an incredibly uncertain outcome, many people — from President Zedillo, to the former Trade Minister Serra, who negotiated it, to people like myself, and other former foreign ministers — we all tend to think that it’s just not worth it, that there will be such a freeze on foreign investment in Mexico during those two years or whatever they are, that the pain of doing so is greater than the gain that eventually would come from modifying it. Let the Americans leave, and let’s hope for the best with WTO, and see what happens.

But there are two points of view, and it’s hard to say, really, which one the president has chosen. At the end of the day, it’s his decision,

SPEAKER 1: What is the probability of AMLO winning 2018 elections?

JORGE CASTAÑEDA: AMLO, as you all know, Lopez Obrador, the left-of-center candidate, I’d say right now it’s very, very, very high, in the 70% to 80% probability, that he will win. This can change over the next year and five months before the elections.

But everything seems to be moving in his direction. He has an extraordinarily competent campaign manager, Pena Nieto. He couldn’t have hired anybody better — first rate. And he has a very depressing economic situation that he can take advantage of. Trump’s aggression, or whatever you want to call it, is helping him — wrongly.

I think the worst thing that can happen to Mexico is to have a guy like Lopez Obrador be in charge of dealing with Trump. But people in Mexico today believe that he would be better at it than the other guys. They prefer him to anybody else, even on that specific issue.

So, as of today, he absolutely wins, and he probably wins by seven or eight points — not getting more than 37% or 38% of the vote, but that’s enough. And it means a lot, because he would roll back a lot of Pena Nieto’s reforms, especially energy reform. I see no way in the world that Pena’s energy reforms will remain intact, if Lopez Obrador is elected.

And he doesn’t really need congressional approval to roll them back. He can just expropriate one or two of the huge companies, pay them in 50-year bonds, and they’ll all go running for cover. Everybody else will just leave.

You don’t need to really change the constitution again to just get rid of them. You have to remember, in 1938 when President Cardenas nationalized the oil companies, he didn’t have to change the Constitution. He was able to do it through presidential decree, without going through congress.

SPEAKER 1: Have Latin American countries considered a Milton Friedman-type approach to drugs, meaning legalize, regulate, tax increase, government regulation?
JORGE CASTAÑEDA: And the more and more presidents — former presidents, a whole lot of them have. You have former presidents, like Cardoso in Brazil, Zedillo in Mexico, Lagos in Chile, Gaviria in Colombia — when Santos leaves, obviously — Santos in Colombia, also, who all are in favor of legalizing either all drugs or at least marijuana. Legalizing at least consumption, perhaps some even distribution, and production — as presidents go, former foreign ministers, health ministers, et cetera, also. Some congresses have moved in that direction. Of course, the main example is Uruguay, which has now fully legalized marijuana.

And there were a few cities that have moved a little bit in that direction. Public opinion continues to be against it, and this is a problem for a lot of politicians, logically enough. One thing that may end up changing this, although Trump has sort of blotted it out for the moment, is a California decision to fully legalize recreational marijuana last November.

That’s a big, big deal, which will have a huge impact in Mexico, but in other countries, also, except that for the moment, really, Trump has overshadowed it completely. Nobody even remembers about California anymore. But he’ll go away one day.

SPEAKER 1: And will that way of marijuana legalization, will it have an impact, or will we be all about cocaine, after it?

JORGE CASTAÑEDA: Let me put it this way. All of the arguments that people have marshaled in favor of legalizing marijuana, in fact are pretty much applicable directly to cocaine, and even to heroin. It’s your own damn business if you want to harm yourself, as long as you don’t harm anybody else — one of the main arguments in favor of marijuana legalization. It applies to cocaine and heroin also.

It’s better to keep it out in the open. It’s safer, higher quality, less contact with organized crime, with dealers, with the shadier parts of society, for marijuana. It’s also true for heroin and cocaine.

You can tax it. Also true for those two. I mean, practically every argument is valid for practically all drugs.

Now, obviously, the political equation is very different. You can now get people moving in the direction of legalizing marijuana in some places in Latin America. You have absolutely no possibility of moving in that direction on cocaine, or on heroin, today. It’s just not in the cards, even if marijuana sort of is.

So there is a bit of a dilemma there, because the ethical, the medical, the economic, all of the arguments that Milton Friedman — the economist arguments, the Portuguese arguments, all of the arguments in favor — apply pretty much to all drugs. And at the same time it’s not feasible. And people can get scared.
You're going to let kids shoot up with heroin? No, not going to let kids. It's not going to be for kids. Well, they'll do it anyway. If they'll do it anyway, that means they're doing it anyway.

So, you want them to do it with proper syringes, decent stuff, out in the open, or you'd rather not have them do it? Yeah, you'd rather not have them do it.

I remember, I had an exchange once with Enrique Pena Nieto before he was president. Used to — we weren't friends, but we got along, and we would talk and stuff.

And one day, a friend of mine and I were pushing, trying to convince him about marijuana legalization. This must have been 2011, something like that. And he says, “what you're saying, you're telling me you want my children to be smoking pot in their bedroom?”

I said, “Enrique, your children, right now, are smoking pot in their bedroom. That's what they do. That's what teenagers do. Right now, that's what they're doing.” He didn't like that.

SPEAKER 1: What are the implications for investors of the political movements to the center in Latin American countries?

JORGE CASTAÑEDA: For those countries where you had a real economic screw up, because the left-of-center macroeconomic policies got out of control, the move back to the center can be very encouraging for foreign investors or the local investors. Best examples, obviously: Argentina, Venezuela — one day it will happen, I guess — Brazil. That will be about it.

But a lot of the left-of-center governments had sound macroeconomic policies. They didn't screw up. The Brazilians didn't screw up the first two terms — remember those first two terms. The Bolivians really have not screwed up. The Ecuadorians have not screwed up.

So, you don't have — even if Evo Morales loses his reelection, I think it's in 2019, or something like that — you won't have a huge change, because he has been quite sensible on these issues, not on other issues. The same for Correa. I mean, how more sensible can you get than having a rabidly anti-American nationalist president in Ecuador who continued to have the dollar as the national currency? You're not going to get a lot more orthodox than that. That's about the limit.

And Correa has been very sensible about it. He never fooled around with that. Like the FMLN, by the way, also in El Salvador, which did not mess with the dollar as the national currency, either. So, really it depends.

Obviously, Brazil and Argentina are two places now where investors can probably be much more comfortable. Although remember, Brazil during all of these years continued to receive $60, $70, $80 billion a year in direct foreign investment, which was about 3%, 4% to 5% of GDP. Twice
what Mexico gets, with very arguable macroeconomic policies, at least from the second half of Rousseff’s first term. They’re still getting more foreign investment than Mexico, with all our orthodoxy and all our playing by the rules. Mexico is at 2% of GDP, on average foreign investment, over the last 20 years, since NAFTA.

SPEAKER 1: And how do you see Venezuela ending up?

JORGE CASTAÑEDA: Well, that was one of my flash points. I didn’t really get into it. I wish I knew. I think it’s a huge mess, and I think that there’s three flash points. If you want to, I’ll get into the three of them.

The first was Mexico, we already talked about that. I don’t think there’s much more to say, because it’s more speculation right now. Except that, as I said, Trump is an unmitigated disaster. And there is going to be no way to deal with Trump without confrontation. How much confrontation, over what issues, when, who will come out winning, who will come out losing, between Mexico and the US on that kind of confrontation, I don’t know.

I am absolutely certain there is no way confrontation can be indefinitely avoided. It’s not possible. This guy is out to get us, period. That I have no doubt about. Let’s leave Mexico aside.

The other two flash points are Cuba and Venezuela, which are very linked to one to each other. Venezuela has now had a little bit of respite, because the price of oil has gone back up. And by going up, not to where it was before, but at around $55 a barrel. That’s much better for them than $20 a barrel. And that gives them some breathing room.

And even though their production is down, even though they have mortgaged a lot of their future sales to the Chinese and everybody already, they mortgaged them at yesterday’s prices, not at today’s prices. Still, this has helped them. The opposition was not able to ram through the term [SPEAKING SPANISH] that they wanted. And so if it is held, Maduro will lose. But his vice president will become president, and so it will make really no difference.

So, basically they have to wait it out now until the 2018 presidential elections. That’s a long time. Now, will Maduro be overthrown before then by the military? Hard to say. What will Trump do on this? Almost impossible to say.

Obama and Bush were both actually quite reasonable on Venezuela, saying, “If you want to screw up the country, screw it up. It’s your country. It’s not our problem. We don’t really care.” And neither Bush nor Obama really tried to influence the outcome of any of the elections or to push for any kind of regime change in Venezuela.
Trump might, but it would seem more logical for him just not to care. Now, if he’s driving past some gas station on the New Jersey Turnpike one day, or something like that, and he sees a Citgo gas station, and he asks the driver, “Hey, what is that?”

“Well, that’s Chavez. That belongs to Chavez. Who’s Chavez? He used to be president of Venezuela. He’s dead now, but now there’s another guy called Maduro. He owns it, too.”

“What do you mean? These guys own gas stations here in the New Jersey Turnpike?”

“Well yes, Mr. President, actually, as a matter of fact. Actually, you know, Shell? Actually it’s not American, either. It’s British and Dutch. And actually BP? It’s called British Petroleum, because it’s British.”

“I’m not going to take this!”

And he goes out and he nationalizes Citgo. And he can do it. It actually can be done.

We hear the same story — that would be shooting themselves in the foot, because the Gulf refineries can only refine Venezuelan heavy oil, and they can’t find that oil from other places. And if they nationalize Citgo, the Venezuelans won’t sell them oil, blah blah blah blah blah.

If he wants to do it because he saw the gas station and he didn’t like it, he’ll do it. But the most probable outcome is it will be the same policy as Obama and Bush, which means nothing, in which case, probably things will go on the way they are. Except for the humanitarian crisis, which is real.

There’s a town in Brazil, northern Brazil, on the border with Venezuela. It’s a town of 10,000 people. I think it’s called [SPANISH] or [SPANISH] or something like that. And it’s a town 10,000 people, and there are 30,000 Venezuelans living in the…

SPEAKER 1: Of course.

JORGE CASTAÑEDA: …10,000-people town. And on Colombia, on the border…

SPEAKER 1: [INAUDIBLE]

JORGE CASTAÑEDA: … It happened in bunches of places. Because they just cross the border, because there’s no food. There’s no medicines. There’s no food. There’s no nothing.

And on the other side of the border there are some things, at least. And so they’d rather do that — those who can — than continue in Venezuela.
You can have a real humanitarian crisis, even if you don’t necessarily have the government falling. And Cuba, of course. The problem is that it’s very much linked to Venezuela or to the United States. And obviously, hopes that the Cubans may have had that after Obama’s normalization there would be really much more economic engagement by Americans in Cuba — investment tourism — real stuff, not the nostalgic stuff.

I want to go and see Havana. There’s no McDonald’s. I want to go and see something which doesn’t exist, which is kind of strange, you know? When you think about it, a tourist attraction is the absence of something. There’s no McDonald’s, so let’s go to Havana. It’s not going to get you very far, as far as a tourist, as a resort destination is concerned.

But in any case, with Trump, even if he doesn’t roll back Obama’s stuff — and I think he will — but even if he doesn’t, it will be very difficult for any American company, investor, or whatever, to bet on something in Cuba, thinking that maybe the time will come when Trump will want to roll it back — which he said he would.

And he actually owes the Cuban-Americans in Miami-Dade County big time, because he won Florida thanks to them. Remember Obama won Florida twice. And Gore almost did, or did, whatever you prefer. And he owes them big time.

And they want those policies rolled back. There’s a lot of talk about Cuban-Americans, second or third generation, they’re not the same as the old guys who came in 1960. Yeah, but the old guys are the guys who vote. And the third-generation guys may be against the embargo, but they don’t vote.

The guys who got Trump elected are the guys who want those policies rolled back. So, Cuba can be a huge flash point, because if the place starts collapsing economically, Cubans always do the same thing. They’ve been doing it for 400 years. When things go south, they leave.

They swim, take a boat, they take planes, they do whatever you want. Sharks eat half of them, but the other half gets through. This is what Cubans do. When things go south, they leave.

And there’s a lot of Cubans who want to leave. And it’s not that difficult to leave, either to Miami, or to [INAUDIBLE], or to Honduras, or to all sorts of places. It’s not that difficult to leave. Because the Cuban government no longer really stops people from leaving anymore, which was a deterrent.

It allowed Fidel Castro to turn the spigot on and off over 50 years, depending on what he wanted to do. Raul Castro doesn’t have the instruments, the capability now — the logistical one — of actually continuing to do that. So, those are two important flash points there.

SPEAKER 1: Does Mexico have any areas of innovation, or growth, that may drive growth?
JORGE CASTAÑEDA: No. The problem we have is — maybe we can summarize, and this will be the last one, unless there’s some — no, no, no.

SPEAKER 1: We have one more, after that.

JORGE CASTAÑEDA: Yeah, we have one more? As many as you like. But remember, cocktails are ready, are being served.

The problem with Mexico, and NAFTA, and these last 24 years now, is that the success stories are real, but at the same time, they’re very relative. Let’s just take the most well-known one, which is the automobile industry. Mexico has become Detroit South. According to Trump, all of the jobs went to Mexico. If some of you remember Ross Perot, there was going to be a great sucking sound of jobs moving from the United States to Mexico. Da-da-da, da-da-da, da-da-da, OK.

The automobile industry, all included — meaning parts and terminal, assembly, the works, the whole thing — employs about 700,000 people in Mexico. On the one hand, it’s a lot of people. In absolute terms, it’s a very significant amount of people.

On the other hand, that’s 700,000 people in a country of 125 million. It’s a lot of people, but it’s relative. Yes, Mexico exports, I think, upward now of 3 million units per year. It’s the fourth or fifth largest automobile manufacturer in the world. But about 70% of the content of each one of those cars is imported — 40-odd percent from the United States, and 25-odd percent from other places.

So, the actual value added in Mexico is much less than, let’s say, in Germany or in Japan. So, that’s a second sort of relative area there. Because if so much is imported, that means that the number of jobs that are actually generated, has a ceiling to it.

Third, the average salary according to the National Statistics Institute in Mexico, the average salary for a regular shop floor automobile plant worker in Mexico is right now, at the current rate of exchange, is about $400 a month — 8,000 pesos. [SPEAKING SPANISH]

That doesn’t mean that there aren’t some guys who have been working there for 20 years in the older plants in Saltillo or even in Mexico City, who might not make 10,000 pesos or 12,000 pesos. But the average is $400, OK?

A typical hourly worker in a US automobile plant — especially in a unionized state — is in the $32 to $33, $34 per hour range. If he has overtime — they generally don’t, because they have three shifts, but sometimes there will be. If he has a 10-hour day every now and then, or she has a 10-hour day every now and then, they can make $320, $330 a day. The Mexican makes $400 — making the same car — $400 a month.
There’s a problem there. There’s a real, real problem there. If any — I wouldn’t say four — maybe six of you skip the group dinner tonight, and go to one of the very good fancy restaurants in Cancun and have decent wine — not [NON-ENGLISH] or stuff like that — just regular, decent bottle of good wine — six of you, have maybe a tequila or two before dinner, nice dinner — you will spend, for the six of you, easily, you will spend those 8,000 pesos.

Probably just four of you, if you, a little bit of a night on the town, you’ll spend those 8,000 pesos. You will spend on dinner what a guy in the most modern, globalized successful sector of the Mexican economy, makes in a month. That’s the problem. That can’t go on.

And so you’re going to get AMLO — who’s going to make things worse, by the way. It’s not going to make them any better. But this can’t go on. And that’s the problem we have.

So, is the automobile industry really driving the Mexican economy, even if there was no Trump? No, this is all pre-Trump. None of this has to do with Trump. Obviously, we wouldn’t be better off without this. We’d be much worse off without the automobile industry, without NAFTA that made it possible. Yeah, fine. But this is the bottom line. And it’s not great. [SPEAKING SPANISH]

SPEAKER 1: [SPEAKING SPANISH]

JORGE CASTAÑEDA: All right.

SPEAKER 1: So before we close, will you postulate for 2018 presidential elections?

JORGE CASTAÑEDA: Yeah, she left that one for last when it’s time for cocktails. I don’t mind answering. I would love to. I think that an independent candidate, a non-party candidate would have a serious shot. And more importantly, I think it’s the only way to try and channel some of the resentment and anti-systemic sentiment in the country away from Lopez Obrador.

But this costs a lot of money. Because the way the laws are set up in Mexico, party candidates get huge subsidies from the state, but independent candidates get practically no subsidies. You’re allowed to spend as much as the other guys, but you have to come up with the money on your own.

And so, if, let’s say, the PRI and the PAN candidates are going to spend, all told, between public and private money, about $500 million each, between now and July of 2018. An independent candidate, to be competitive, needs something like $100 million — a fifth of what they have.

And in addition, they have free airtime — a lot of free airtime. They don’t pay for it. They get it for free. Independent candidate doesn’t get it.
So, the private sector does not want to put up that kind of money, for me or for any other one, either. It’s not — I may be part of the problem, but the other guys have the same problem that I have. So, under those conditions, it’s very difficult.

I’m not saying no, but this is the situation on the ground. How do I raise that kind of money? If I can’t, I don’t want to do a testimonial run. It’s not worth it. Too old for that, and too ready for cocktails. Thank you all very much.

**SPEAKER 1:** Jorge, thank you very much.