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Interview

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Moving forward – but not fast enough

Ted Piccone

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What are the most important questions for the future of Latin America?

T.Pi./ — The commodity boom led by China was a mixed blessing. It led to great economic growth in the region, but it pushed Latin America back into its normal cycle of resource extraction. In effect, it prompted a process of deindustrialization, because demand was for iron ore, soy beans, and other basic commodities. Industrialization is certainly not at the level it was. The region is struggling and has low levels of growth. Brazil is just climbing out of recession.

Underdevelopment, low levels of innovation, and lack of education are the heart of the problem in Latin America. When it comes to innovation, the region has been more of a taker than a giver. When you look at things like patents and other measures, Latin America is very low on the productivity scale. They will not be able to compete if they stay at that level.

But the China commodity boom was also good news: some Latin American governments, particularly on the center left, invested in social welfare programs. That led to positive results in terms of human and economic development, education, and poverty reduction. But it didn't allow for a strong reduction of inequality. Inequality is still Latin America's main problem. The rise of the middle class has now hit a major speed bump in most of South America. Defining the middle class is tricky, because many Latin Americans enter the edges of the middle class and very quickly fall back into poverty. The region has a huge informal economy, where people are not part of the official system, are not paying taxes, and are not getting social benefits.

Latin Americans have learned many lessons in the past, but the region is always just getting by. It improves, the middle class expands, and then it slides back again. They are not able to reach the critical mass of growth they need to break out of a vicious cycle. When you compare Latin America to Asia, it is much more up and down here.

How do you assess the Chinese influence in the region?

T.Pi./ — I would say it is risky. Suspicious is too strong. Latin America is looking around for partners and China has arrived with very deep

pockets and very few conditions. This is a positive experience compared to the South American relationship with Washington, which was based on the Washington Consensus and the demands of the IMF that led to major political turmoil in many countries, including the downfall of governments. Chinese imports have risen dramatically. For many Latin American countries, China is now the most important partner. However, when you compare China's footprint in Latin America to other parts of the world, it is not their primary place for investment. China invests more in Europe, in Africa, in other parts of Asia, and in the United States.

China's interest in infrastructure is certainly filling a gap, but the projects are not always tied to what is most needed, and not always related to productivity. The complaint about China is that they take without giving. It is

other interests, such as soft power interests or human rights issues at the UN or elsewhere. The Chinese will go beyond their narrow diplomatic and territorial ambitions because they have introduced a new phase in the global arena. It will be interesting to see whether the Latin Americans will be strong enough to stand up to the pressure they are going to face down the road.

Are China's investments and economic interests putting it in a position to be a potential partner for Europe and the United States in advancing common interests in Latin America?

T.Pi./ — Yes, absolutely. Take Venezuela, where China has positioned itself to be the country's number one economic partner. They have made the difference between bankruptcy and solvency there. At the same time, China is not going to write

in the U.S. right now there is a growing concern about China's role in the world.

Do you think the Monroe Doctrine, which opposes foreign entanglement in the Western hemisphere and claims an overarching role for the U.S., is still valid?

T.Pi./ — The Monroe Doctrine has been dead for a long time. It keeps rearing its head because people see ghosts from the past, but they are just phantoms. In the Obama administration, Secretary Kerry felt he needed to declare the end of the Monroe Doctrine yet again. And then, in February 2018, Secretary Tillerson of the Trump administration declared it "a success" and "as relevant today as it was the day it was written". In my opinion, the more serious question is the competition between the United States and China around the world.

Until now, the U.S. has been quite tolerant and even welcoming of China's role in the region, because it realized in the 1990s and 2000s that the U.S. could no longer be Latin America's savior. When I worked for the U.S. government after the Cold War and the end of military dictatorships, we wanted a democratic and prosperous region that was able to take care of its own problems. We did not want to create this dependency on the United States. We wanted just the opposite. We were trying to get these governments up to a level playing field that would enable them to be partners and not dependencies. That used to be the strategic objective.

Do you see it changing?

T.Pi./ — Yes, because China has entered the scene with resources that we cannot match. So we in fact lost that battle. Under the Obama administration, there were bilateral discussions between the U.S. and China on how to work together in Latin America. That sense of cooperation has completely changed because China has increasingly abetted some of the worst tendencies in the region. They have enabled Chavez and Maduro, they supported bad decisions made in Ecuador or Bolivia, and they backed Kirchner in Argentina. Cooperation along those lines is not in the interest of the United States.

The current president of the United States openly considered a military option in Venezuela in front of other

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not really a two-way street. The Latin Americans want to gain a foothold in the Chinese market, and that is very difficult. The Chinese have been clever in presenting themselves as a benevolent win-win partner. The danger is that China is amassing a certain amount of leverage through economic investment that they can use for political purposes when the time comes.

So far, China has been cautious in using its assistance to get what it wants. The things the Chinese care most about are getting support on their view on Tibet, the South China Sea, and Taiwan. There is still a fight in the region over recognizing Beijing over Taipei, because Belize, El Salvador, Guatemala, Honduras, Nicaragua, and Paraguay still recognize Taipei as the sole representative of China. It will not be long before China uses its economic leverage to serve

Venezuela a blank check. China is frustrated by how its money has been poured into the oil industry in Venezuela without the increase in output they were hoping for. There are huge levels of corruption. China doesn't have a preference for societies with a strong rule of law, high transparency, and strong anti-corruption. They are just as likely to invest in a country that has low levels of transparency and rule of law, and they are losing a lot of money in Venezuela as a result.

One of the grand strategic questions is: do you continue to work with China by introducing practices of global good governance, international norms of transparency, and rule of law? This would give them a sense of buy-in. Or should you take a more antagonistic approach that might lead to a clash? Europe is looking to act somewhere between those two poles, but



heads of state from South America. He might regard South America as the U.S.'s backyard again.

T.Pi./ — Yes, they were appalled. There is that old thinking, but it is particular to Trump. It is not the view in the bureaucracy, including the U.S. military. Trump's chief of staff is General Kelly, who was head of the Southern Command. He knows the region well and he does not share that view. When he was in charge of the region, he aimed at professionalizing the military in Latin America. He wanted to enable them to join us as security partners, not to somehow meddle in their internal affairs.

Developments in South America concern the U.S. much more than China. Even if you wanted to, you cannot disengage.

T.Pi./ — Absolutely. We are linked geographically and through our populations in so many ways that we have to remain very engaged in the region. There is a sense in Washington that Latin American policy issues are present there, but compared to other parts of the world they always end up somewhere in the middle to lower end of the priority pile. That may be good and bad at the same time.

In national security terms, Latin America does not pose any serious threat to us. It is a nuclear-free zone. The security problems we face in Latin America do not require military action, but law enforcement action, health initiatives, border patrolling, and customs protection. Homeland security is the bread and butter of our security interests in the region. That is how we got to the big debate about the border wall and controlling migration. President Trump is trying to create a dark picture of the threats coming from the south in a way that appeals to his constituency. It does resonate quite strongly throughout the American public, not just in small towns along the border in Texas. It is a serious problem, but we don't have the right tools to solve it. To deal with gangs and drug trafficking, we need more police cooperation and strong professional police forces in the region. Taking a more militaristic approach has not worked.

The opioid crisis in the U.S. is real. The carnage that President Trump mentioned in his inaugural address is linked to drugs. Preventing harm to your citizens is at the core of U.S.

interests. In this case, harm is not coming from Russian nukes or Chinese submarines, it is coming from drugs grown in Latin America and bought and consumed by U.S. citizens.

T.Pi./ — The epidemic of overdoses killed more than 64,000 Americans in 2016 alone, a 21 percent increase over the previous year. About 65,000 Americans died in Vietnam, Iraq, and Afghanistan. We are at war. This is not just a heroin or a crack cocaine epidemic in inner cities. This is an abuse of prescription drugs and of heroin in the heartland, in rural areas, in Republican states. We have to look hard at the root causes of these problems. Often, we like scapegoats and we blame the drug traffickers, but these problems are much more complex and they require multi-disciplinary solutions in public health, law enforcement, psychology, as well as in the economic and education spheres.

The fight against corruption is a sea change in Latin America, which used to be a region of impunity for high-level elites.

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We do have a place in the U.S. government for this: the Office of National Drug Control Policy. Trump has not appointed anyone. They have not even given a name for someone who could fill that position. Instead, you have the Attorney General going off again in a war against marijuana, imposing maximum penalties on users. It is very frustrating because we were making bipartisan progress on a way of lowering the penalties against drug users. We were addressing it more as a harm reduction problem while still taking a tough approach to dealing with the bigger traffickers.

Latin Americans are stuck in the middle of this debate. In the 1980s and 1990s, they were seen as the problem. We had a major meltdown in our relationship with Colombia as a result. We then climbed out of that hole, and now, after investing billions

of dollars, we have a peace process in Colombia and a strong relationship with the country. We need to have a cohesive national strategy with willing partners in the region that are addressing all the various causes of the problem. Mexico would be the number one target, because that is where some of the opioids are coming from. I don't see anything on the horizon that tells me the U.S. is going to make Latin America a primary partner in addressing this. We are very far from an intelligent policy for all of this.

How do you assess the future of democracy in Latin America? Will the rise of populism in the U.S. be a role model for some of Latin America's largest countries?

T.Pi./ — There are similarities and differences. To start with the differences: the issues that are really at the core of the populist rise in the U.S.

This is a sea change in Latin America, which used to be a region of impunity for high-level elites. You can always see this as politicized, as one side going after another faction, and there are elements of that, but popular demand is behind it. So being populist in Latin America might mean being anti-corruption and pro rule of law. That is a good thing for democracy in the region.

As long as it doesn't lead to a new military dictatorship.

T.Pi./ — I don't see that on the horizon. With the exception of Venezuela, the militaries have largely been sidelined in the region, most dramatically in Argentina. We have seen the end of military coups across the region. The problem is much more about the deterioration of democracy through democratic means, like in Venezuela, or the growing tendency toward open-ended reelection and an incumbency instead of one or two-term limits.

There is a growing number of politicians who are calling for hard-fisted approaches to law and order because the region has the highest rates of violence in the world. People cannot safely take their kids to school, and political pressure is building for this tough approach, which includes extrajudicial and arbitrary executions against people considered undesirable. It might mean the militarization of law enforcement, but not the militarization of the democratic system.

How do you explain the strong rise of evangelical Christian movements?

T.Pi./ — They are blossoming and entering the political field. The evangelicals have expanded their activities and gained a foothold because they are working with the poorest of the poor and the desperate who are looking for solutions. They also are in more remote areas of South America, which means they are politically very important in some countries, like Brazil. The Catholic Church has been weakened over the years. In some places, it was seen as a negative force during the military dictatorship era, so people in some regions don't want to be associated with the Catholic Church. In others, the church is seen as a more progressive, center-left, Jesuit, liberation theology type movement. It depends on the country. Overall, the evangelical movement coming mainly from the United States has seen a



sustained surge, and now we are seeing it enter politics. That is a concern.

Are you an optimist or a pessimist on Latin America?

T.Pi./ — I come out in the middle. I would not see it stagnating, but falling behind, like moving forward but not quickly enough to keep pace with other competition in the world. It is not going to be a stellar breakthrough region, but it is not going to be a basket case either. I see some advantages, such as the environment, water resources, and less vulnerability to climate change. One should add great conditions for food production: the region could be doing much more in addressing the world's food security problems.

As they continue to break out of some of the traditional models of machismo and patriarchy, as women become more involved in the economy and politics, the region will change in positive ways and its economies will improve. If they successfully solve this problem of corruption and not only put people in jail but address the underlying root causes and adopt serious reforms, then I would be much more optimistic. I don't quite see that yet.

Brazil is in no position to deal with the real underlying problems. They are just dealing with clearing up the mess. They need to change political financing structures, which are also a problem in most of South America. Political financing is veiled in secrecy and it needs to be cleaned up.

Why is Venezuela so special and why is it taking a turn for the worse?

T.Pi./ — Venezuela is a basket case. It is getting worse. It is going to be a big problem that we will have to manage for the next ten to twenty years. It is special because it did have a functioning democracy with a two-party system at one point. Chávez adopted a clever model of appealing to the demands of the poor majority, which was legitimate, but also of seizing control for his own program while limiting the competition and checks and balances. With Maduro, you have someone who has decided to seek total control. He has managed more successfully than many of us thought. We underestimated him. There is very little functioning opposition left.

You have a top-down, centralized economy that depends on oil without

investing in production capacity. Every year, production volumes decrease. If the drop in oil prices hadn't hit them, they would be in a different position. Now the prices have recovered, but not enough to put them back on track. The situation is going to get even worse. At one point, a faction of the military could intervene, or there may be an internal uprising.

To be able to govern as the Castros governed all these years in Cuba, Venezuela would need huge subsidies from abroad. They will get some help from China and Russia, but not enough to survive. At this point, the game is putting pressure on the regime and there is a bit of divide and conquer to break some of the loyalists away from Maduro so that a serious opposition can be built.

The geopolitical chessboard has clearly shifted in a way that demands Europe and Germany play a much more active role and break out of their inward-looking complacency.

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The region is divided on how to address the problem of Venezuela, but we do have a critical mass of South American countries regarding this government as illegitimate. There has been a reaffirmation of some of the basic norms of democratic governance in the region, but then you have some states that still depend on Venezuela or are sympathetic to their politics, and they are breaking consensus in the Organization of American States. We might need a lot of humanitarian assistance if the situation deteriorates further. Europe can play a good role as a complementary force, contributing its own means to support civil society and promote reform. We will probably need the UN to step up and pay more of a mediating role, because we may be headed toward a civil war in Venezuela.

Could Venezuela become a crisis as bad as Colombia a couple of years ago?

T.Pi./ — Even worse. Colombia's war went on for forty years or more, so it had a certain familiarity to it that we could manage. Venezuela would have a potential spillover effect on Colombia, and this would destroy its important peace process. We have all invested so much in it. The overlay of drugs and criminal lawlessness in Venezuela as a transit route for many bad things is the real concern.

Do Europe and Germany have a role to play?

T.Pi./ — I believe so. The geopolitical chessboard has clearly shifted in a way that demands Europe and Germany play a much more active role

and break out of their inward-looking complacency. That brings forth the larger question of Germany's role in the world. Within its own capabilities, it needs to be a more active defender of the international liberal order that it has benefited from over the last seventy years. The U.S. is extremely paralyzed right now. China is rising. Russia is being very disruptive. Europe, and Germany specifically, have shown the world that a moderate, successful force can evolve from the ashes of war.

Germany has a soft power that comes across in different fields, certainly in terms of the country's history and how it has addressed its past. This can benefit Latin America, which is still dealing with its own past. The more people understand that and learn

from it, the better. Germany's vocational education model has a lot to offer to the world, including the United States. It is not just a story of the success of German companies and businesses. There is a German diaspora in Latin America and it goes back quite far now. Some of it is shattered by some Nazis escaping and getting away with it, but enough time has gone by that Germany could tap into some of those communities in its favor.

Where does Latin America have the potential to influence other parts of the world?

T.Pi./ — Latin America has this blend of a European heritage with its indigenous stock. There is a great appreciation in Latin America of environmental concerns, biodiversity, and opportunities in biomedicine. As climate change gets even more important, Latin America is in a positive place compared to other parts of the world. It is a region without nuclear weapons and without wars between states. They do have a strong appreciation for diplomacy and international law.

What needs to change for a better future?

T.Pi./ — I would like to see substantial progress domestically on the rule of law. They need to address their massive inequality problems. There is a cultural aspect to it. In Latin America, the primacy of your family, community, and network, which is often broken down along class lines, tends to feed this sense of patronage and corruption. You walk around a city in Latin America and you mostly see walls and fences around private homes. There is a lack of trust among citizens. Maybe greater transparency and social media will create a bigger sense of community. The move toward street protests is not new in Latin America, but if there is a consistent power where people coming out to oppose corruption in the mayor's office get to know their neighbors in new ways, it could create a positive sense of citizenry and participation that would be the opposite of living behind walls.

Thank you very much.

