

Sin Arancel de por Medio – Episode 2

Challenges and Strategies in Latin America

in the Face of Trump 2.0

Full Transcript

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Oscar Guinea: Welcome to Sin Arancel de por Medio.

Today, we have the pleasure of speaking with José Juan Ruiz, President of the Real Instituto Elcano, one of the most influential think tanks in Spain and Europe. José Juan has had an outstanding career as an economist, with experience in both the public and private sectors. Before his current position at Elcano, he was Chief Economist and Director of the Research Department at the Inter-American Development Bank. Throughout his career, he has written on a wide range of topics, from trade policy to monetary policy, including Spain, the European Union, and Latin America.

Today, we will discuss current affairs and their effects on both the economic outlook and structure of Latin America.

José Juan, welcome to the podcast.

José Juan Ruiz: Welcome? No, it is a pleasure to be here with you. It is always a pleasure to talk about Latin America and the state of the world.

Renata Zilli: Well, thank you very much, José Juan. It is inevitable that we go straight to the issue that concerns Latin America the most—the change of government and foreign policy with Donald Trump returning to the White House for a second time.

One element that adds to the concern is that Trump comes accompanied by a group of figures with extensive experience and a hardline approach towards the region, starting with the Secretary of State, Marco Rubio, who has already made his first official trip—to Central America—revealing the strategic importance of Latin America to this administration.

But Rubio is not the only one. Another figure from this group—and if you allow me to coin a term here, the “neovulcans”, a reference to the cabinet of George Bush—is the former US ambassador to Mexico, Christopher Landau, who has been nominated as Deputy Secretary of State. Then there is also Mauricio Claver-Carone, the former President of the IDB, who now returns as a special envoy for Latin America.

Ultimately, the concern is not just about Donald Trump, but also about a team of specialists on the region who will be the ones executing the White House's trade threats as a tool of political pressure. In recent months, we have seen this strategy used primarily against Mexico and also against Colombia to secure migration agreements. Although I believe it would be a mistake to group these two countries into the same category, as President Petro was even threatened with having visas revoked for his relatives, whereas Mexico, under President Claudia Sheinbaum, is in a somewhat different position. Not only does she take a more pragmatic stance, but Mexico also has other tools to respond to US pressures.

Given all these nuances and the heterogeneity within the region, how do you think Latin American countries should respond to the pressures of Trump 2.0? Should they submit entirely? Engage in a push-and-pull strategy? Confront the administration? In short, what is your view?

José Juan Ruiz: Thank you very much, Renata, for the way you have framed the issue.

If I may, I believe it would be a mistake for Latin America to analyse, act, and decide its strategy in purely bilateral terms—not just country by country, but even at a regional level.

It is essential to understand what this presidency aims to achieve, what consequences this has for the global order, and then try to determine what the possible responses are and where Latin America must position itself.

What we are witnessing, in my opinion—and Marco Rubio's confirmation hearing made this very clear—is a presidency that believes the international order is obsolete. Not only obsolete but weaponised—used against the United States. The goal is to change the international order.

I think the first step is understanding the game being played. In my view, we are seeing a return to power politics—a 19th-century geopolitical mindset applied to the 21st century. This, I believe, is an even greater concern for Latin America than is often recognised.

What does this imply? It means that, against the backdrop of the struggle for global economic hegemony between China and the United States, both major powers will assess which policies best serve their existing allies, how they can damage their rivals' allies, and how they can attract new allies to their coalitions. This is, perhaps, a more strategic and broad way of looking at what is happening.

My perception is that this administration has concluded that, under the previous global order and its rules, China would inevitably reach a position of dominance. By breaking these rules today and creating chaos and disruption, the net result is seen as positive for the United States. Everyone will lose—the US, its rivals, and its allies—but the administration believes that America's losses will be smaller than China's, and that its allied base, despite also losing, can compensate the US through greater support. That, in my view, explains the aggressive stance not just towards Mexico, Canada, and Colombia but also towards Europe, as seen in recent declarations.

To some extent, we are returning to a world of power politics, much like what Thucydides described in the 5th century BC. In his *History of the Peloponnesian War*, an Athenian general visits the assembly of the Melians, who were allies of Sparta, and tells them: Change your alliance. When they refuse, he states plainly: The strong do what they can, and the weak suffer what they must.

In this world, which envisions strategic control from Greenland to the Gulf of Mexico and the Panama Canal, allies—especially in Latin America—are expected not only to receive fewer benefits from their partnership with the US but also to bear part of the economic burden created by America's strategic shift.

Logically, the first targets are the closest ones—the ones that can be hurt the most. As you rightly said, there is an obsession with trade deficits. But beyond that, if you want to redefine the playing field in the new order, you start with what you perceive as the biggest challenges—Mexico and Canada. At the same time, you bring other major issues to the forefront—migration, drug trafficking, violence—and expect these countries to act according to your demands.

That being said, in this context, I believe that the response of Mexico's President has been extraordinarily brave, intelligent, and probably quite effective. I think it is crucial to stand firm in order to negotiate from a position of strength—not because the negotiations themselves will be entirely rational, but because if you are not at the table, you are the menu. It is as simple as that. So, Latin American countries need to be at the negotiating table. What comes out of those negotiations remains to be seen, but I do not think this is just a minor shift. I see it as a redefinition of the international order.

Renata Zilli: Yes, I agree. Several analysts refer to this Great Power Competition—I wouldn't know how to translate it exactly into Spanish—but it is essentially an imperialist vision of the international order, divided into spheres of influence. Geographically, this would place Latin America within the

American continent under the United States' sphere, and we have seen this since the foundation of the United States as a nation, its expansion, and the development of its areas of influence.

So, it is also somewhat concerning for the region that we are entering a new dynamic that is non-institutional, isn't it? If it becomes a matter of who is the strongest, then the legal framework is completely disregarded, and this could lead to greater conflicts. Institutions were precisely designed to resolve these differences through an organised and peaceful process, weren't they? That is perhaps the biggest danger of our times, and I agree with your assessment.

I believe that, in certain cases, like Mexico's, there are elements that allow for negotiation and standing firm. I also don't think it is a good strategy to play the bully, because otherwise, you will be harassed indefinitely.

But you have raised a very important point about the international context of this hegemonic struggle, mainly between the United States and China, haven't you? And in Latin America, we have a division—not quite an Iron Curtain, but a hemispheric divide—between North and South America, with different trade, economic, and political dynamics. Some countries are more aligned with the United States, such as Mexico and Central America in the north, while South America leans more towards China. We can see this in the case of Brazil, which is in constant tension.

From your perspective, how do you think these economic differences or dependencies might influence regional integration processes and the feasibility of implementing public policies and infrastructure projects? You have experience in this sector.

Latin America is a region with significant development needs, and I also find it interesting to bring up the cases of Peru and Panama, which are in direct confrontation with Washington over control of the Panama Canal and, in Peru's case, over the Chancay Port.

So, what can these countries do to resist US pressure in an open competition with China while also seeking solutions to their development and infrastructure challenges?

José Juan Ruiz: No, Renata, I completely agree with the critical nature of this discussion.

But let me start with an important observation.

For many years, I have believed that data kills narratives. And the basis of your argument does have empirical evidence that is undeniable. In Mexico or Central America, for example, it is difficult to find any significant Chinese influence or hegemony. Their economic model is clearly geared towards the United States, where the dominant power is unquestionably the US. European countries or other allies—such as South Korea and Japan—play only a marginal role. The north and the centre of Latin America are unquestionably aligned with the United States.

However, this tendency towards clear, polarising viewpoints immediately leads one to assume that South America is China's continent. But if you look at the data, this is simply not the case. It is true that China ranks among the top three buyers of exports from South American countries. But we must not forget that all of South America combined exports less than Mexico. In other words, these economies are much more closed. Brazil and Argentina, for example, have trade openness levels comparable to North Korea, with imports accounting for just 10–11% of GDP in both countries.

So, it is crucial to examine the data carefully—and not only the economic data. If you look at where South American countries buy their military equipment, it is predominantly from the United States or Europe. If you look at their technology sources, it is primarily American or European. If you analyse migration patterns, people from the region tend to emigrate to Europe or the United States. If you examine where students go to study abroad, the vast majority go to Europe or the United States.

Thus, assuming that China is the dominant force in South America simply because it has acted as a lender of last resort in specific crises or has undertaken some high-profile projects in certain countries is, in reality, a flawed analysis.

This is the first key issue. When countries assess their positions, they must first understand their vulnerabilities and strengths.

The second issue, returning to the idea of Thucydides, is that in hegemonic struggles, it is absolutely crucial to understand what is happening with one's allies. What a country does for or to its allies often determines the ultimate outcome of these struggles.

Latin America's geostrategic value is increasing exponentially due to these developments. The United States takes its influence over Latin America for granted, but it will now have to demonstrate what incentives it offers to keep the region aligned. China will seek to draw Latin America closer in order to weaken the US in a strategically important area. But Europe also has a rare opportunity here—it can strengthen its global standing by engaging with Latin America, particularly if it feels abandoned by the United States and does not want to fall into China's orbit. This is a global game, and it is vital to understand it as such.

For example, what would happen if Europe approved the EU-Mercosur agreement? Currently, Latin America's perception of Europe is poor, mediocre, and limited in economic terms. But approving the agreement would change the situation significantly, as it would allow Europe to enhance its strategic autonomy and secure key supplies.

Meanwhile, Latin America would gain the opportunity to diversify its economic partnerships and engage transactionally with the three major players—Europe, the US, and China. This would also provide Latin America with a stronger position within Europe.

One of the most interesting aspects of the Mercosur agreement is that it is not just a trade deal or a free trade area. If this agreement were approved, Europe would have free trade agreements covering 94% of Latin America's GDP. In contrast, the United States would have agreements with only 42%, and China with just 12%. Even though China is a major buyer of Latin America's commodity exports, these are global markets governed by international prices. Latin America has little incentive to sign a free trade agreement with China, and China has little to gain from such an agreement either.

The second key issue is that if Latin America remains in the global free trade system and Europe opens its doors, we would likely see greater specialisation, diversification, and increased trade both within and outside Latin America. This would help create the great Latin American market, an economic integration project that has been discussed since the region's independence movements.

Oscar Guinea: Thank you, José Juan.

Let me counter that argument. When someone discusses the benefits of EU-Mercosur agreements, or the modernisation of trade deals with Mexico, and lists all the advantages, the obvious response is: If it makes so much sense, why haven't we done it yet?

If it is such a logical step, why has it not happened?

José Juan Ruiz: Well, I think the answer is quite clear. The reason is that those within Europe who feel their interests are threatened by competition have been able to block it, and because Latin America's political cycle has never allowed the two largest Mercosur economies—Brazil and Argentina—to reach an agreement.

Mercosur should be seen as a huge challenge—if it succeeds, it will be almost miraculous, which is why it has been stuck for 25 years, right? Because what you are trying to do is get the most protectionist agricultural region in the world to sign a free trade agreement with the most efficient agricultural producer in the world. And you are also asking the region that has believed

industrialisation to be the only path to development—and has therefore been the most protectionist—to enter into a free trade agreement with the region that has built its power and dominance on the industrial model for centuries. In other words, we are talking about an incredibly complex issue. That is why, if these agreements succeed, they matter. That is why, if they go through, they shift the balance.

But what I find most important is not just the trade creation between Europe and Latin America. To me, the most significant aspect of the Mercosur agreement, these types of agreements, or the one already signed with Mexico and soon to be renewed with Chile, is that they would generate trade within Latin American countries. This, I believe, is the central issue.

Latin America will never be able to become a strong entity, a solid bloc, or a valuable alliance unless it can open up its economies, improve productivity, and achieve growth. The region has done thousands of things well in recent years—and, of course, a hundred things badly. But the macroeconomic framework is sound, the resources are there, the culture is strong, and the democratic foundation exists. What is lacking is economic growth and the redistribution of that growth. And to achieve this, productivity gains are essential.

And if you ask an economist, they will insist over and over again that competition and market openness are what drive growth. Industrial policies—despite their resurgence in popularity today—have proven to be incredibly costly for the well-being of the majority of the population in Latin America, much like populism.

Renata Zilli: Well, precisely, José Juan. Regarding these structural issues in Latin America that prevent it from consolidating itself as a region of high-income economies, we have been discussing them for the past two hundred years.

There are those who argue that the core problem is that these countries are caught in the middle-income trap. For our audience, the middle-income trap refers to those countries that manage to escape poverty and reach a middle-income level but then stagnate and fail to make the leap to high-income economies.

That is one perspective, isn't it? I would like to know if you share this view and whether you believe this is the main structural challenge facing Latin American countries. If so, what would be the path to escaping this trap?

Of course, we agree that there is no single factor, but I would love for you to outline, in this brief discussion, some of the key structural points that the region needs to address in order to move forward. You have already mentioned intra-regional trade, possibly the de-primarisation of the economies, and greater regional integration. Perhaps I am already pre-empting your answer, but in any case, I would love for you to share your vision on Latin America's structural challenges in light of this new order that is unfolding before our eyes.

José Juan Ruiz: No, Renata, you are absolutely right.

We have spent an incredibly long time discussing what is blocking Latin America's path to development. From an economist's perspective, I have spent the last 30 years in the region, and the fact that not a single country has managed to make the leap to a high-income category—when, back in the 1990s with the return of democracy, and later with some countries joining the OECD, it seemed like a process that would take 10, 15, or 20 years, and nothing could stop it—this is deeply frustrating.

So, what have we learned from this frustration? Well, we have learned two key things.

The first is that making the transition to sustained growth is far more difficult than people tend to assume. Over the past 150 years, only around 12 to 15 countries have successfully made this transition. That is the first issue.

There is a difference between growth and convergence. And while they may seem identical, they are not. The real goal for Latin America should not necessarily be convergence; rather, it should be maximising its growth potential, because if it does that, convergence will eventually happen on its own.

What we have also learned is that impatience with policy does not pay off. The Adanism of Latin America—its tendency to want to reinvent the wheel—is understandable from a political standpoint. When you see that poverty persists, inequality remains high, crime is a constant problem, welfare states are not being properly developed, and tax systems fail to take shape, it is easy to become impatient.

When you look at all these political and economic challenges, the question that arises is: What does Latin America lack that other regions have had?

The answer is that its institutions are much weaker.

And institutions in Latin America are weaker because of the temptation—both from populist politicians and from the private sector—to capture and co-opt those institutions. This happens on all sides—whether from government, opposition, or businesses. And this, I believe, is one of the biggest structural problems we have come to understand.

It is not something unique to Latin America, either. The same thing is happening in the United States. We are witnessing how supposedly strong institutions crumble when authoritarian ambitions become intense enough, and those in power are granted the tools to act on them.

There are probably issues in the design of political systems, presidential models, and checks and balances in Latin America—just as in the US and some European countries—that fail to insulate institutions sufficiently from capture. This prevents policies from remaining stable over time and producing results.

There is an understandable impatience, both in humanitarian and human terms. But institutions, and the ability to maintain checks and balances, are not built in two, three, or five years. And once they are established, the temptation of politicians and businesses to co-opt them or dilute their power remains ever-present. This is a serious issue.

And this, I believe, is far more important than the middle-class trap argument. If you look at the numbers, you will see that growth rates in Latin America have not been terrible. Growth itself is not the main issue. The real problem is that we have suffered from large and frequent economic crises.

Sometimes it is better to grow more slowly but steadily—without major crises—because that is what truly builds a strong middle class. The erratic, stop-and-go growth patterns we have seen in Latin America are directly related to its economic structure: a lack of diversification, excessive dependence on external capital markets, weak domestic financial and capital markets, and a public sector that crowds out private savings.

So, the idea that everything has gone wrong—I would push back on that a little.

Latin America is actually one of the regions where extreme poverty has virtually disappeared. Poverty levels have fallen significantly, even though they have risen again in the past 20 to 30 years. Since the return of democracy, major social policies have been implemented, improving income distribution. Today, the majority of Latin America—although still vulnerable to shocks—is made up of middle-class populations.

So, rather than saying we are trapped in the middle-income trap, I would argue that we should say: How fortunate we are to have reached the middle class and not be trapped in poverty anymore.

And that did not happen by accident. It has been the result of generations of Latin Americans working to improve their societies.

Now, to keep moving forward, I believe the most critical economic issue is the need to reduce the size of the informal economy.

As long as informality remains high, this is not just a problem of taxation or welfare sustainability—it is also a security issue. Informality is precisely what creates the disincentives to adopt new technologies, incorporate productivity improvements, and integrate into global supply chains.

This is the core challenge. And tackling it would require a complete rethink of how compensation mechanisms are financed, as Santiago Levy has proposed in Mexico.

Should redistribution be based on formal employment taxes? Or should fiscal reforms shift towards direct taxes rather than indirect or labour-based taxes?

Oscar Guinea: Phenomenal. You have given us so much to think about—not just in terms of criticism, but also in highlighting the progress that has been made in Latin America's economic development.

Let's end with a final question that we ask all our podcast guests. It is a bit more creative. Imagine a world where you have no economic or political constraints whatsoever.

José Juan Ruiz: That world does not exist—and thinking about it just makes me melancholic.

Oscar Guinea: Well, let's say you could choose any public policy to improve Latin America's economic development, with no restrictions. Where would you place your focus? What would you prioritise?

José Juan Ruiz: Three things: Education, education, education.

Renata Zilli: Magnificent. Thank you very much, José Juan, for sharing your experience on Sin Arancel de por Medio. I'd like to ask you, where can our audience follow you on social media? Could you share that with us? Do you have an account on X, LinkedIn, or an email? Where can people find you?

José Juan Ruiz: Essentially, what I do now is direct this Spanish think tank, the Real Instituto Elcano, so it's best to follow Real Instituto Elcano, where you will see my work, but also that of many colleagues and experts. Right now, we are nearly 60 researchers studying and discussing global events.

There is one very important point that Latin America must be aware of.

To be heard in the world, the best strategy is not to talk too much about oneself, but rather to speak about global problems and explain how you can contribute to solving them.

You have experience—because you have faced many of these issues, or are currently facing them. You have ideas—because you have implemented policies, some of which have failed, but others that have succeeded.

If Latin America, instead of trying to explain its political system and its internal struggles to the world, took a different approach and said:

"If you want to talk about the green transition, ask us—we have the cleanest energy production matrix in the world, and we have the resources to keep pushing forward and contribute."

"If you want to talk about security, ask us—we have faced enormous challenges, we still do, and not everything we have tried has worked."

This, I believe, is the right approach for Latin America to engage globally—not by talking about itself, but by showing how its experience can serve others. That, I think, would be a huge step forward.

Renata Zilli: Thank you very much, José Juan, for once again sharing your insights on Sin Arancel de por Medio. And of course, everyone, follow Real Instituto Elcano on all its platforms.

José Juan Ruiz: Renata, Óscar, it has been a pleasure to share these minutes with you.

Oscar Guinea: Thank you so much, José Juan. We really appreciate your time and all of your thoughts—it has been incredibly interesting.

José Juan Ruiz: Thank you.

Oscar Guinea: Well, Renata, what did you think of today's conversation? What stood out for you?

Renata Zilli: Well, it has been a fascinating discussion.

We covered so many topics that it's hard to pick just one, but I particularly liked José Juan's analysis—which I completely agree with—on how we are in a world transitioning towards a new power dynamic, this Great Power Competition.

I also appreciated how he challenged some of the common narratives about China's influence in the Southern Cone. He provided very interesting data that debunks the idea that China dominates Latin America. He pointed out that while China has developed specific strategies in certain countries, the majority of Latin American nations continue to purchase American and European technology. The top destinations for migration and education from the region remain the United States and Europe.

I found this perspective particularly valuable—it adds nuance to the prevailing narrative about China's role in Latin America.

And what about you, Óscar? What stood out the most for you?

Oscar Guinea: Two things.

The first is the comparison between Trump and Thucydides in the Peloponnesian War. There's a quote that José Juan uses in his El País article—which we can share on social media—that says something like: The strong do what they can, and the weak suffer what they must.

I find this quote particularly relevant when trying to understand President Trump. His focus isn't so much on winning, but rather on making sure his opponent loses. That is a fundamental point José Juan made.

The second thing is how Latin America is facing the challenge of moving from agriculture to manufacturing, and now from manufacturing to high-value-added services, which could boost the region's productivity.

I'll link this to two other points José Juan made. First, when we discussed trade—because trade is a key vehicle for facilitating this transition towards a more productive economic structure, where services play a larger role.

And second, his final point—when we asked him which policy he would prioritise if he had no economic or political constraints, and he answered: Education.

This highlights how, in his view, human capital is more important than physical capital when it comes to fostering economic and social development in the region.

Renata Zilli: Absolutely. That last point really stood out to me as well, and I think it's something we need to reflect on moving forward.

Oscar Guinea: Well, until next time.

Renata Zilli: See you soon. Thank you.