

# LATIN AMERICA ADVISOR

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## FEATURED Q&A

# Has Mexico's Gov't Ceded Control to Drug Traffickers?



Mexican authorities last month arrested but later released Ovidio Guzmán, a son of jailed kingpin Joaquín "El Chapo" Guzmán. The younger Guzmán has been indicted in the United States on drug trafficking charges. // Photo: Mexican Government.

**Q** Mexican security forces on Oct. 17 captured and then released one of country's most powerful drug lords, Ovidio Guzmán, a son of jailed kingpin Joaquín "El Chapo" Guzmán, after apparently being overpowered by heavily armed combatants who laid siege to the western city of Culiacán for hours. Meantime, the country's Senate is set to soon vote on legislation to fully legalize marijuana, according to ruling party Senator Ricardo Monreal, who supports the bill, saying it will take power away from drug gangs. With nearly a year in office, what have been the consequences of López Obrador's drug and security strategies, and is he losing ground to drug cartels? What would be the most important implications of cannabis legalization, including for the country's economy? If approved, what sorts of regulations should be in place to control it?

**A** Barry R. McCaffrey, retired U.S. Army four-star general and former director of the White House Office of National Drug Control Policy: "Poor, beautiful Mexico with 128 million people, strong culture and strong families—but with such suffering from enormous levels of criminal violence, endemic state corruption and government incompetence. Voters turned in desperation to AMLO and the Morena Party in overwhelming numbers at both the federal level and in the 32 states. He retains significant levels of popular support. However, Mexico has lost internal control of law and order to the drug cartels. It's time for frank talk. 'Hugs not bullets' is sheer nonsense. Removal of the military from the streets and the creation of the National Guard is a shell game. The proposed decriminalization of all drugs is a

## TODAY'S NEWS

### POLITICAL

#### Bolivia Protests Continue as OAS Audit Begins

Much of Bolivia remained paralyzed Thursday by demonstrations, strikes and blockades, as a team of 30 experts from the Organization of American States began an audit of the Oct. 20 election records.

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### ECONOMIC

#### Credit Growth Slows as Mexico Economy Stalls

Mexico's economy grew just 0.1 percent in the third quarter from the previous three-month period, extending a year of flat activity. Meanwhile, the private sector saw credit growth fall in September.

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### POLITICAL

#### Spain Offers Venue for Climate Event

Spanish Prime Minister Pedro Sánchez on Thursday offered Madrid as the venue for the United Nations' COP25 conference, which Chile pulled out of hosting this week amid massive protests. Chile will still chair the summit.

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Sánchez // File Photo: Spanish Government.

**POLITICAL NEWS**

## Bolivia Protests Shut Down Cities, Transit

Much of Bolivia remained paralyzed Thursday by demonstrations, strikes and blockades, as a team of 30 experts from the Organization of American States began an audit of the Oct. 20 election records, The New York Times reported. Opposition candidate Carlos Mesa has rallied supporters for 10 days, claiming the vote was marred by fraud in favor of longtime incumbent President Evo Morales. Morales called on supporters to stifle protests by cutting off access points to cities, which led to even more anger among the Andean nation's population as the movement of people and goods slowed to a crawl. After a town hall meeting in La Paz on Thursday evening, violence broke out in the streets for several hours until police used pep-



**Morales** // Photo: @evoespueblo via Twitter.

per spray and tear gas to disperse the crowds, La Razón reported. Similar incidents occurred in six other cities, interrupting Halloween events, according to the report. On Wednesday, two anti-government demonstrators were killed and several people were wounded in the city of Montero in Santa Cruz province, after a rampage of gunfire broke out. Although Morales has said he will abide by the OAS election audit, Mesa says he was not included in the process and does not see it as a viable way to resolve the dispute, urging supporters to remain mobilized in the streets. On Thursday, Bolivia's influential conference of Catholic bishops questioned whether the OAS had the means to carry out an "integral" audit while the opposition dismissed it entirely, the Irish Times reported. Some mid-level military officers, who

did not reveal their identities, wrote a letter to Morales earlier this week saying they would not fire on the demonstrators. "Our weapons will only be raised to defend our people, our Constitution and our laws," the letter said.

**ECONOMIC NEWS**

## Credit Growth Slows as Mexico Economy Continues to Stall

Mexico's economy grew just 0.1 percent in the third quarter from the previous three-month period, extending a series of disappointing data releases under President Andrés Manuel López Obrador, Reuters reported Thursday. The preliminary data from state statistics agency INEGI marks the first annual decline in GDP in adjusted terms since the final quarter of 2009, a year in which Mexico suffered a sharp recession brought on by the global financial crisis that originated in the United States. Meanwhile, Mexico's private sector saw credit growth deteriorate to 4.6 percent in September, down from 5.9 percent from a year ago, the Bank of Mexico said Thursday. "Tight monetary conditions and lingering apprehension with regard to the policy outlook under the [López Obrador] administration appear to have eroded both credit supply by banks and demand by both consumers and corporates," economist Alberto Ramos with Goldman Sachs told clients in a research note. [Editor's note: See related **Q&A** in the Sept. 10 issue of the Advisor.]

**BUSINESS NEWS**

## Western Union Sees Turmoil in Argentina Affect Q3 Earnings

Denver-based money transfer company Western Union said Thursday it generated revenue of \$1.3 billion in the third quarter. The figure is

**NEWS BRIEFS**

## ExxonMobil Could Take a Pass on Long-Awaited Brazil Oil Auction: Report

Houston based oil company ExxonMobil could sit out Brazil's highly anticipated auction of the giant Buzios deep-water oil discovery next week, Bloomberg News reported Thursday. Stephen Greenlee, Exxon's president of exploration, said in an interview with Bloomberg in Rio de Janeiro that "there are a lot of investment options out there right now" for oil companies elsewhere in the world. The four oil fields for sale in the so-called pre-salt region could cost more than \$50 billion, according to the report.

## Spain Offers Madrid as Venue for Climate Event

Chilean President Sebastián Piñera said Thursday that Spain's caretaker Socialist Party government had offered to host COP25, the United Nations' climate change conference, after Piñera pulled out of hosting the event amid deadly street protests and violence, El País reported. The conference is set to take place between Dec. 2 and 13. Chile will still chair the summit, but the event will convene in Madrid, according to the offer made by Spanish Prime Minister Pedro Sánchez. Some 25,000 people were expected to attend the conference.

## Brazil: Bolsonaro Cancels Federal Subscriptions to Paper Critical of Him

Brazilian President Jair Bolsonaro on Thursday declared he would cancel the federal government's subscriptions to one of the nation's largest newspapers, Folha de S.Paulo, the media company reported. "We will no longer spend money on this type of newspaper," he said in an interview on TV Bandeirantes. Folha has been critical of Bolsonaro's administration in its reporting. The far-right president also threatened that the newspaper's advertisers "should pay attention" to his decision.

a decline of 6 percent on a reported basis, or an increase of 4 percent in adjusted constant currency terms, compared to the prior-year period. The strengthening of the dollar against the Argentine peso set back reported revenue by 2 percent in the quarter, while the effects of inflation on the company's Argentina-based businesses are estimated to have positively impacted revenue there by approximately 2 percent, the company said. Geographically, growth was driven by cross-border sends that originated in the United States and Latin America, as well as improvement in the Middle East, which were partially offset by declines in Asia-Pacific and U.S. domestic money transfers.

## Uber Pulls Out of Plan to Base Support Center in Colombia

Ride-hailing company Uber will no longer base a \$40 million support and safety center in Colombia, the company said Thursday, citing a lack of regulatory certainty in the Andean nation, Portafolio reported. The center, which would have been the third of its kind in Latin America, was set to begin operations next year and would have provided 600 jobs, Uber said in a statement. "After six years looking for avenues for dialogue and in the absence of a roadmap to advance regulatory stability and legal security, we regret that we will need to relocate the destination of the investment," said Uber's general manager for Colombia, Nicolás Pardo, Reuters reported. Pardo added that Uber repeatedly stated its good will for dialogue with the Colombian government and other actors that "contribute to Colombia's development and encourage foreign investment," Portafolio reported. The service, whose use is widespread but technically illegal in the South American country, remains unregulated there. Colombian authorities have fined Uber more than half a million dollars for allegedly obstructing an inspection in 2017. Uber says it has two million clients in Colombia, as well as 88,000 drivers. The company has faced opposition from licensed taxi drivers, who say the ride service unfairly competes against them.

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policy of madness, and the legalization of cannabis will never defund the cartels. The first responsibility of government is security. In 2018, 33,000 people were murdered in Mexico. By the end of 2019, 37,000 will be murdered. Last month, the second-line Sinaloa Cartel ran the Mexican army out of the modern city of Culiacán. The prison was busted open. Several hundred cartel gunmen with heavy weapons seized back El Chapo's son and humiliated the 270,000 troops of the active armed forces. In Michoacán, 13 police were killed, and nine were wounded. In Iguala, 15 were killed. Mexico has a dreamer as president. Severe economic stagnation is combined with widespread extortion of business. If AMLO won't protect the state, the cartels will govern."

**A**rturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States:

"A weak rule of law has always been an Achilles' heel for Mexico, and the monopoly of violence by the state has been called into question on several occasions in Mexico since 2005. But at no point had it been put to the test, and failed so miserably, as in Culiacán. The havoc wreaked there was the culmination of a week defined by deadly violence in Michoacán and Guerrero and the lack of a clear government plan to combat it. Lives are not saved on the spur of the moment of an operation; they are saved by careful planning. The decision to cave in will have far-reaching consequences for Mexico's long struggle against transnational criminal organizations, relations with a U.S. president that is itching to pick a fight with Mexico on drug policy on the road to 2020 and the lack of a coherent government strategy to confront violence and public insecurity. The show of force was also a reminder that the drug trade is booming in the United States; consumers there paid for a big share of all those gunmen, weapons and vehicles deployed by organized crime to confront

the government. And a key component of being outgunned—in Culiacán and elsewhere across Mexico—are those Barrett 50-caliber sniper rifles and other assault weapons that continue to make their way illegally across the border and feed the firepower of criminal organizations. This brings us to cannabis legalization. Mexico should immediately adopt



**The decision to cave in will have far-reaching consequences."**

— Arturo Sarukhan

a two-pronged strategy: it should publicly state that it will no longer spend resources or manpower in eradicating and interdicting cannabis on its way to the U.S. market and will dedicate those to take on the more violent groups and the more pernicious drugs. And it needs, undoubtedly, to move forward with a well-pondered and implemented policy of cannabis legalization."



**Andrew Rudman, managing director at Monarch Global Strategies:** "The anticipated legislative action regarding the recreational use of cannabis stems from an October 2018 Supreme Court decision that found that the prohibition on recreational use impeded the plaintiffs' ability to exercise their fundamental right to personal development."

The precedent-setting fifth such decision requires the Mexican Congress to correct the portions of the General Health Law that were found to be unconstitutional. The decision is indeed consistent with the AMLO administration's planned shift away from the hardline approach to cannabis adopted by its predecessors. The argument that legalization will move consumers from illicit to legal vendors is not unique to Mexico. Canada's decision to legalize recreational use of cannabis and similar decisions in a number of U.S. states suggest a growing trend in favor of legal access to cannabis and its derivatives. While

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early initiatives focus on decriminalization of personal consumption and production and on use of cannabis for therapeutic and medical research purposes, formalizing the sale of cannabis and its derivatives will offer local growers the opportunity to produce a potentially lucrative crop while providing the state with additional tax revenue. A strong regulatory framework would help Mexico to capitalize on potential economic opportunities, protect consumers and exclude criminal involvement. Such a framework should permit some vertical integration within the sector (growth, transport, storage, commercialization); allow consumers to choose their preferred delivery/consumption mechanism; promote awareness of legal points of sale and use; and ensure that license issuance is transparent and efficient. Including such provisions in the legislation, which draw from best practices and experiences in other jurisdictions, would help the AMLO administration create a regulatory environment that meets its policy objectives."



**Tania Ramírez, director of the drug policy program in México Unido Contra la Delincuencia (MUCD):**

"Although President López Obrador declared the end of the War on Drugs at the beginning of his administration, he basically has been following the same strategy against drug cartels as previous governments in terms of confrontation and expansion of the armed forces' participation in public security. Regarding drugs, López Obrador's statements have been confusing, but they maintain a traditional approach. During the campaign, his team said that his government would

be pushing drug policy reform, but López Obrador refuses to abandon a conservative position on the topic, explicitly stigmatizing people who use drugs. Even with Congress and the president following the Supreme Court mandate to regulate the cannabis market at the national level, the president is not very willing to support cannabis regulation, arguing that his government has other



**Cannabis regulation can contribute to improving some public security issues."**

— Tania Ramírez

priorities. However, the Senate is working on a cannabis bill. If approved, cannabis regulation can contribute to improving some public security issues. Nowadays, a huge amount of human and material resources of the criminal and justice system are dedicated to the prosecution of minor drug crimes—the majority related to possession of small amounts of cannabis. As a consequence, the attention and efforts of authorities (police, prosecutors and judges) are concentrated on those cases instead of on serious crimes. Cannabis regulation and effective drug decriminalization can contribute to eliminating that opportunity cost. Nevertheless, cannabis regulation will not solve all of Mexico's public security problems by itself."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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