

The Fatal Mistake Handing the AI Race to China

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Ed D'Agostino: All right. So as usual, I'll introduce you afterwards, Jacob. Do you still want to, for intro and outro, do you still want it to be tied to Perch or what would you rather be?

Jacob Shapiro: No, just call me Director of Research at the Bespoke Group.

Ed D'Agostino: Bespoke. Got it. Okay. All right, we'll jump in.

Jacob Shapiro, always good to see you. Thanks for taking some time. Today, I am really dying to get your perspective on the geopolitics of AI and technology. It's not something I hear a lot about, but I have a feeling there's a heck of a lot more to it than most people assume. And it goes way beyond the US versus China and rare earths, which we're hearing about all the time. When you think of the geopolitics of AI and technology, what comes to your mind?

Jacob Shapiro: First of all, I think it's not worth dying over. So don't be dying to listen to anything, but I have to say, first of all, that's guru syndrome right there. But I think those are two completely separate things. There is the geopolitics of AI itself, and then there's the geopolitics of technology. And I think it's still an open question whether AI is a technological revolution or whether it is the late stage of the previous revolution. I don't know if your listeners have had a chance.

I just had Jerry Newman on my podcast. He wrote one of the best essays I've read all year in which he compared artificial intelligence to containerization. And that really we should be thinking about AI not as some kind of, you know, a thing that is going to completely transform everything. It could, but rather the way that it's functioning right now is that it's going to make things more efficient and more productive and that there won't be lots of actual companies to go invest in. Those have already made the money.

The places that you have to look right now are the ones that are going to use AI to increase productivity or to be more efficient. And it's a nice metaphor with containerization because containerization, you couldn't go invest in the containerization company. But the companies

that did well, one example would be Ikea. They figured out, I can make things really, really cheaply and you can assemble them this way. And that way I'm going to expand market share versus a captive industry that's already doing some of those things. So we can talk more about AI and how I'm thinking about that. And I think there are also geostrategic implications because different countries are thinking about and interacting with AI in different ways. I think the US and China are the two clear ones and have very different approaches, but we can talk about Europe and India and some of these others. And then there's just the geopolitics of technology in general, which is always there in the background and which is something we should always be thinking about. And then we could talk about how technology can change geopolitics overnight. I think technology is always uncomfortable for the geopolitical analyst because the geopolitical analyst is always looking for those things that don't change very often, like literally looking at geography. It's hard to move a mountain, but every once in a while you get an invention that makes the mountain irrelevant or completely changes the logic around these things. So we're always sort of looking there for what that next thing is. I'm not clear that I, I don't have a clear sense of where or what the next thing is going to be. I have a list, I have a menu list of options.

Ed D'Agostino: Right.

Jacob Shapiro: Like, could it be nanotechnology? Could it be biotech? Could it be material sciences that allow us to do fusion? Like there's all sorts of interesting things out there. And I think we risk, we have to do two things at the same time without going crazy. We have to appreciate what's happening with AI and also resist this narrative that we're just a stone's throw away from AGI and the robot overlords ruling us all and figuring out the secrets of the universe. Like I'm pretty sure that's not what is going to happen and that OpenAI and others are selling us that so that they can continue their current model. But anyway, now I'm rambling. I'll let you bring me back to focus.

Ed D'Agostino: Yeah, no, no, I think you bring up a ton of great points and technology. I think it's right to think about this beyond just AI because, you know, we could go back and forth all day long on what is AI? Is it just a, is it just a prediction machine, which in many ways it is a really sophisticated one? Is it just the most, the ultimate level of search engine, which in many ways it is? I use it daily at this point and it helps my research process phenomenally. So I see in our own company and our research firm I see a lot of efficiency and potential for more. So then it comes down to like, what is it going to do in the US versus what is it maybe going to do in China and India and the Middle East, where I think there was just a big breakthrough announced from the UAE about a new large language model. I mean, maybe we could just go country by country, right? I mean, in the US, there's lots of people that are going to disagree. I do think that it's going to be a boost to productivity. I see our little company of around 40 or so people as we grow. Instead of going from 40 to 45 next year, my guess is we stay at 40. So it's not taking jobs, but there's no jobs being created. And I wonder if that's the model for the bulk of companies out there. What have you seen and heard?

Jacob Shapiro: Well, I think as with any technology, there is going to be creative destruction and then there will also be creation. I mean, how many thinkers over the past centuries have said, once we reach this technology, there won't be any jobs anymore and we're all just, we're going to go to the three-day work week and everything's going to be productive. It never happens because you create new opportunities and you create old ones. And if you're somebody who was trained 20 years in the tech, in the, in the job that becomes obsolete, that's terrible. See American coal miners in West Virginia. And we didn't have a government policy that was how to retrain them and work them into a society in which their jobs aren't needed anymore. But that's sort of a broader conversation there too. And I think before we get into some of that, I just want to say that I think, and I've been pushing this with both clients and audiences, I really just want to underscore how important it is, how important data and information is going forward. I forget where I saw the statistic, but it was something like 50% of what's on the internet today was produced by AI. And by next year, it'll be something like 90% of what is going to be on the internet will be produced by AI just because it's producing so many things. And as a result of that, the quality of information is degrading because the AI is training itself now on the things that the AI produced. And in some sense, all of these models are dependent on us freely of our own volition feeding these public models all of this proprietary information. I've even changed, like I was just thinking about this last week. I used to want to put out transcripts for my own podcast, increase SEO and increase visibility. Now I want none of my transcripts online because I don't want someone to just be able to take my transcripts and plug them into a model and steal my insights. I should protect those things myself. So I think as we're thinking about AI, I think it's going to be about what companies can protect their information.

What companies can say, we have a data moat here that we're not sharing with everybody else, we're not putting it online, we're not creating a public model, and instead we're creating a private one, and we're doing something bespoke for our clients. So just because I'm being me about it, that's the Bespoke Group commercial for you right there. But I think protecting information and having an information edge is going to be so much more important than it has been. And if everybody has GPT and everybody has access to a bunch of these, like GPT is in its third iteration and there are all sorts of, you know, competitors to it now, which is amazing, so much has happened in two years. But I think the real edge is in accessing information that other people don't have access to and making sure that information isn't being put out there. So that's one thing I want to say about AI and what I'm thinking about over the long term. We can talk about productivity too.

Ed D'Agostino: Yeah, so would you say it's less an offensive tool and more of a defensive tool in geopolitics when it comes to AI?

Jacob Shapiro: No, I would say it's both. It's more about understanding that I think we've been giving away so much of our information for free and people are freeloading off of the sort of creative content. And I've been as guilty as this as anybody else, because I've been one of these people who's like, yeah, I've got AI, I'll help you rewrite that press release that you don't need to write anyway. And it'll be good and it'll be better, and it'll get better, and we'll upload all of our transcripts so that it can understand how I'm thinking and try to replicate that. And we have to

put some guard rails and say, hold on, maybe we're giving away something that could be used as an information weapon, or maybe we're just giving away something that makes things a lot easier for them to compete against us. So I'm just trying to adjust some of my own practices and thinking there. I don't think we've put the value on information that it deserves in 2024, and I think that's going to become a theme for 2025.

Ed D'Agostino: Yeah, agreed. I've seen a lot of articles and podcasts and things this year about protecting that information because of the training models and how they work. So I think that's absolutely right. You mentioned China. Let's jump over to China then. What do you think China is doing with AI when it comes to technology and development? Because that's a, and we've seen through FinCEN leaks and hacked memos out of China and everything.

I mean, if they can steal, they're going to do it. It doesn't matter what. But when it comes to AI, how are they using AI? How are they using technology? How does it differ from the US and Europe?

Jacob Shapiro: Well, look, I think there's a couple of things. Number one, I think China is dependent on American technology. It is desperate for American chips. It is building its own supercomputer infrastructure to try to compete, but they are still playing catch up with the US. And I saw, I forget which company, it might have been one of those NASDAQ companies or something like that, where their earnings report, they just specifically said, we're assuming that Chinese tariffs, that Chinese AI and the development of AI in China is going to slow down and take longer because we think the US is going to successfully choke off the technology pipeline. So I think US tech policy has been successfully cutting China off from the necessary chips and the necessary technology needed to have the sort of AI revolution or evolution that would be ideal for China.

I think it's also interesting how China is thinking about using AI, and I'm indebted here to Jordan Schneider's ChinaTalk podcast for some of this. But in China, especially with this Xi Jinping new security law, they're not treating AI as this thing that's going to go out and create and do all these wonderful things. They're looking at AI and large language models as a social stability tool. So they want to know how it could be used for surveillance. They want to know how it could be used to detect so-called misinformation. They want to know how to use it to make sure that the Chinese Communist Party is secure in its power and that they are creating the sort of surveillance state that allows them to not have another Tiananmen Square, that allows them to keep tabs on what everybody is doing and what everybody is saying.

So in the United States, you have people who are like, I'm going to build a startup, I'm going to make money, and there are a lot of VC people and a lot of VCs backing this, and it's all about greed and making money and OpenAI's business plan and that sort of stuff. In China, it's like, how can we make sure the Chinese Communist Party stays in power? And I think those are very different motivations and very different applications of the technology. This has been true over the past 10, 20 years. You go back to the time when a lot of Western consultants were sitting on the boards of Alibaba and Tencent and all these other companies, and they just thought that

this was about making money and that this was about expanding e-commerce or allowing, you know, mobile payments and things like that.

And what they didn't realize is that they were creating exactly the infrastructure that the Chinese Communist Party wanted so that it could do social controls. You know, like in the early days, if you protested in China and you lost social credit scores, suddenly you couldn't take a train. And you're like, how would they know that? Oh, they know that because Alibaba and all these other mobile payment systems know all your information. So I think China is thinking about AI mostly as a social stability lever. I think the Chinese Communist Party's general philosophy is it doesn't want to push things to a point where there might be creative destruction and innovation because that could cause social instability.

So I think they're going to go slower than we would like. But I will also say that I think it's important when we think about China and technology in general to remember that China is good at learning, reverse engineering and doing things. So if you're thinking about semiconductors, it's a lot easier to know, this is the end product, now how can I get there? As opposed to, what could the thing be? And you're starting from scratch. So China doesn't have that issue here. They know what ChatGPT is, they know what Anthropic is, they know what the end products are. They're trying to figure out how to reverse engineer and get there. And I have no doubt that they're able to do that, especially now that they can also put this out and crowdsource and have people all over China working on these problems. They're going to figure it out. It's just going to take a little longer.

Ed D'Agostino: Sure. Now what about Europe? I know Europe has a lot more regulations when it comes to protecting information and how AI can and cannot be used. What are you hearing out of Europe? What do you think they're doing with it?

Jacob Shapiro: Well, I mean, Europe, the problem in general with Europe is that it's not investing enough in technology. It's not creating startups. This is probably obvious to all your listeners, but if you look at the largest companies on the planet by market capitalization, I think only one European company is in the top 20. And I think you'd have to go all the way down to number 68 to get to another one. Meanwhile, there are several Chinese companies and the vast majority of them are American companies. So Europe has an investment problem. Europe has an innovation problem. Europe does not allow for the sort of creative destruction in the way that, you know, you can incorporate a company and shut down, no problem, over here in the United States. You know, bankruptcy is not such a big deal. Failure is acceptable. That's not true in Europe.

So when you're thinking about AI, Europe is really worried, and I think this is appropriate, about protecting its citizens from the manipulation of AI, about protecting its citizens from using AI in ways that are going to push back against a liberal democratic society and interfere with European elections. But the Europeans are not the ones on the cutting edge of innovation. They're not the ones on the cutting edge of production. So the unfortunate thing is that as America and China duke it out on the technology and AI fronts, Europe is on the sidelines, and

it's making rules to try to keep these bad externalities from affecting it. And I think that's the right approach. It's better to be safe and protect your citizens than it is to be a unicorn nation and have five companies in the top 20 and see what comes out of that. But I don't think Europe is a geopolitical player in this conversation. They're waiting to see the rules of the game and try to fit themselves into it.

Ed D'Agostino: Yeah. So that's a segue back. I'm going to ask you a slightly different question. There's been a handful of people that I've talked to, investors, whether they're in tech, semiconductors, and so forth, that have suggested that the next major development in technology, AI, and so forth will not come out of Silicon Valley or China. It's going to come out of a place like India. And I'm curious what your thoughts are on that because it would have ramifications for US foreign policy, ramifications for China, the subcontinent, Pakistan. I mean, it's a whole geopolitical soup at that point. What do you think?

Jacob Shapiro: Yeah. Well, I mean, look, I hope so. I hope I'm alive to see it. I think it's theoretically possible. But remember, there are three main inputs you need into building technology and an innovation economy. One is physical infrastructure. Factories, power plants, roads, railways, you know, these types of things that allow you to move things around. Two is human capital, and three is technology. And I would argue that China is probably the best on physical infrastructure right now in the world. It's certainly much better than the United States because we stopped investing in infrastructure in 1970 when we finished the interstate highway system. If your listeners have traveled on a Chinese bullet train, the United States has nothing like this. Even Amtrak is something like 100 times slower than a Chinese bullet train. That said, you know, Chinese demographics are a problem, so their human capital gets worse.

And American innovation is leading in technology, and Europe is in the middle of the pack on all three of those things, and India is behind all of them on all three of those things. So you're saying could India become a technological super giant? Theoretically, absolutely, because look at what Indian founders have been able to do when they leave India, right? The founder of Google, you know, Sundar Pichai, Indian roots. You go down the list of a lot of Silicon Valley companies, they've got Indian roots. So there's no question that the human capital is there. The question is, will there be enough investment in physical infrastructure? And can they grow their own native technology in a way? India has been pretty bad about protecting intellectual property in India. Like there's a reason GE sued the Indian government and it became a big international dispute. Because these companies are like, wait a second, we made a deal, you said you would protect us, and then you just stole all of our technology. So like why would we do business with you if this is what you're doing to us?

So India has a lot of things going for it. But I would say that I'm not going to bet on India becoming a technology superpower in a generation. I think there has to be some serious political reform. They're going to have to make some serious strides on physical infrastructure and they're going to have to decide that they're actually going to abide by intellectual property laws. It's happened in other countries. It happened in the United States. We used to steal

everything from the British. It's happened in Japan. It's happened in South Korea. So it's not impossible that it happens in India, but I wouldn't say I would front-load that investment today.

Ed D'Agostino: Got it. Fair enough. When it comes to technology and AI and geopolitics and you know, it's interesting because there's a new administration coming into the US government soon. And I remember some of the Biden administration rules when it came to investments in other countries regarding AI. So like a US company couldn't just go invest freely in AI technology in China if it wanted to. I mean, if I'm not mistaken, there were rules around that, right? Do you think that those types of rules are going to continue or do you think anything changes in a Trump two administration?

Jacob Shapiro: I think they're going to continue. I think they're going to be very similar. I think we are in a, I don't want to say Cold War 2.0 because I don't think the era is going to be quite like the Cold War that we used to have, but I think we are in a strategic competition with China. And I think there is a bipartisan consensus in Congress, which is really hard to achieve on a lot of things, that basically says China is a threat. We need to protect American technology. And we need to not just protect it, but also not enable them to develop similar technology which they could then use on us. You know, you could go all the way back to the Huawei conversation. Like why did the United States make such a big deal that Huawei was developing 5G and was going to be everywhere? Because we didn't trust the Chinese Communist Party. If Huawei is the one running 5G, they're going to put backdoors in there to steal information and do the same thing that China is doing to its own citizens to ours and to our allies.

So I think that the technological race, the technology war that the United States and China are fighting right now, it's the number one geopolitical conflict to be paying attention to. And I think you're right to put your finger on it. I don't see Trump in any way, shape or form rolling back any of these investment restrictions. I think he's going to add to them. He may do it in a different way. There may be some negotiations, and there will be some deals. But the general direction of travel is one in which China and the US are increasingly decoupling. You know, if you think about things like CHIPS Act, CHIPS and Science Act, the IRA, Inflation Reduction Act, these were bipartisan pieces of legislation that were meant to stop the United States from being so dependent on Chinese production and start reshoring and what they call "friendshoring" production. And the Trump administration is going to continue along those same lines.

Ed D'Agostino: Anything involving semiconductors, whether it's the rare earth minerals or anything else that's going to Taiwan, South Korea, I mean, to me that just creates this geopolitical mess that I would love to talk to you about for the next hour because you're talking about Russia, China, and North Korea. I mean, you know, it's, when you throw Taiwan in there and semiconductors in there, it just all gets so complex. But maybe save that for another day. Yeah.

Jacob Shapiro: Yeah, you know, the semiconductors one is an interesting one because I think people have overplayed the rare earth card. China's got the rare earths. China has been able to corner the market on the refining of a lot of these materials that we need for clean technology

and for semiconductors. But it's not like the United States or other countries don't have access to those things. It's just that China was willing to subsidize the industry and we weren't. And once it became clear that this was becoming a geopolitical point of leverage for China, all of a sudden, you had all these companies going out and mining rare earths, and the stock prices went up, and we still haven't seen China deploy the rare earth weapon in a way that is strategically meaningful.

So I'm not as worried about rare earths as maybe I should be. I think there's other ways to get them. With Taiwan, my view has always been that Taiwan is an island and China doesn't have the logistical capability to amphibiously assault Taiwan today. And I don't think it's going to have that capability for at least five to 10 years. So whatever the rhetoric is, whatever Xi Jinping is saying, I'm really watching those indicators for an amphibious assault, and I don't think they're anywhere close. And in fact, I think a lot of China's defense spending and what China's doing militarily right now is, it's like they're building an anti-access area denial system. So they're basically saying to the United States, we can't invade Taiwan, but if you think you're just going to come into the Taiwan Straits and sail around with your aircraft carriers like you used to, we're going to put some missile systems here, and we're going to have some new planes, and we're going to have a couple other things that are going to make you think twice about doing that.

So I would say that's where the Chinese calculus is right now in Taiwan. I think the semiconductor issue is a very big deal, and I've been watching carefully what's happening with TSMC and American investment and Taiwan. You know, one of the big stories last year was TSMC investing in Arizona, and that was going really well, and everybody was like, wow, maybe the US could actually have a semiconductor industry again. And then all of a sudden there were cost overruns. There were complaints that TSMC was bringing in Taiwanese management instead of using American labor. Some of the American workers didn't like to work the 12 hour shifts or the Taiwanese did. All of a sudden TSMC is saying, I don't know, we're going to slow down these plans for future fabs that we were going to build in Arizona.

And my main takeaway from that is exactly what we were talking about before, which is it's a lot easier said than done to reshore production, especially of high technology things, because you need a skilled labor force and you need physical infrastructure. And we don't really have those things anymore in the US. We've been outsourcing that over the past 50 years. And now all of a sudden, the assumption seems to be that we can just flip a light switch and do it. It's going to take 10 to 20 years. So I think that's a big deal. I think for Taiwan, it is the security guarantee. It is the best insurance policy they have against China. If China did invade Taiwan, that semiconductor fab gets shut down right away. And then China doesn't have the jewel that it wants, and the United States doesn't have access to it. So I view Taiwan as my anti-war indicator. The day that China invades Taiwan and blows up TSMC, that's when I'm like, okay, well now I don't understand geopolitics at all.

Ed D'Agostino: What about Japan? And what about, and this will be my last question before we jump to North America, but what about Japan with JASM and their recent announcements

about investing in semiconductors and so forth? Obviously Japan's part of the Quad with Australia and India and the United States. But any thoughts there?

Jacob Shapiro: Yeah, I think Japan is just an absolute key ally for the United States. I think the US, Australia, Japan relationship is the most important strategic relationship that the United States has bar none, and needs to be investing in heavily. Japan, I'm watching Shigeru Ishiba's government right now. He's in a coalition and his approval ratings are already like, I think in the low 30s. And every single Japanese prime minister, since Shinzo Abe got assassinated in July 2022, has had major issues with their governance and hasn't been able to really implement policies. Some of this is Japan's demographics. Some of this is that there are these factional battles within the Liberal Democratic Party that don't seem to be resolving.

Ishiba, I think, wants to do the right things in terms of investing in Japan's military to have a more normal military for the first time in decades, improving relations with the United States. I think the United States and Japan's economic relationship is going to continue improving. But Japan has some serious domestic political instability. I mean, look what's happening with the yen and with the Bank of Japan and its monetary policy. They don't know what they're doing. They're stuck between a rock and a hard place. And we saw in August when there was a global sort of stock market flash crash that started because the yen started to appreciate very quickly and there was a bunch of carry trade unwinding. So I think Japan is going to be a key partner, but there's a lot of serious structural issues that Japan is dealing with. And demographically, their future is bleak. But I think they understand the importance of national security. I think they understand the importance of their alliance with the United States. I think they understand how critical that is in the face of Chinese power.

Ed D'Agostino: Got it. So I'd be remiss if I didn't ask you what you think is going to happen in North America in terms of geopolitics, foreign policy and trade policy. I mean, it appears, and I don't know if this is true, but it appears that Trump and team seem to think that they have an economic hammer over Canada and Mexico, that they can get them to do whatever they want, seemingly. And in many respects, I think that's true. I mean, Canada's economy is highly dependent on trade with the US. So what are you seeing or expecting to happen over the next four years between the US, Canada and Mexico?

Jacob Shapiro: Look, I think Mexico, the USMCA, the United States-Mexico-Canada Agreement, is coming up for review in 2026. Trump has already said that he wants to renegotiate it. I think there's a lot of the fine print that probably needs to be hammered out a little bit more carefully because there's a lot of Chinese re-exportation. There's lots of transshipment issues. Some of that is illegal. Some of it is legal but probably not what we want to incentivize. So I think that's going to be a thing in 2026. I don't think the deal is actually in danger. I think it's more about ironing out those kinks.

I think Trump's relationship with Mexico is going to be one in which there's a lot of tariff threats. There's going to be probably some border drama and immigration issues that are at the headline that really piss a lot of people off. And every once in a while, you'll get a flare up that

makes us wonder whether it's going to be a bigger issue. But I think the relationship is stronger than people think, and I don't think it's going to fall apart. I think the bigger concern is Canada because Trudeau's government seems like it's on its last legs. I think Trudeau is probably going to call an election at some point before he absolutely has to, and there's a decent chance the Conservatives will take power. But Canadian politics right now are pretty unstable. And I think there's also concerns in Canada about Chinese influence.

There was a big report in Canada earlier this year about Chinese Communist Party influence in Canadian elections. And I think there's this question about, is Canada going to continue along this path of being an American partner, or is Canada going to try to hedge and play China and the United States off one another? If Canada tries to do that, I think the Trump administration is going to be pretty harsh with Canada. And so that's something I'm watching carefully is Canadian politics and whether Canada is going to continue to try to be an independent actor, which some of the Canadian public thinks of their country, or whether they're actually going to be a much closer partner to the United States, which I think is the only real future that makes sense for Canada.

Ed D'Agostino: Right.

Jacob Shapiro: And then you can transpose that, there's lots of places around the world where you could do this. You could do it with Vietnam. You could do it with Indonesia. There are a lot of countries in the world right now that are trying to play both sides and that are trying to be clever about balancing these things.

Ed D'Agostino: Yes. Right, being exploited.

Jacob Shapiro: Mexico is different. I mean, it was the former Mexican dictator Porfirio Díaz who said, poor Mexico, so far from God, so close to the United States. My own experience, at least from Mexico's perspective, is that China gives lots of promises, but they don't actually do anything. It's usually about intellectual property theft and things like that inside of Mexico or rerouting exports to avoid tariffs through the southern border more than anything else. But I don't think Mexico is under any illusion that they're going to be able to balance relations by being with China sort of in that sense. So I would say it's a deeper problem I think for Canada than it is for Mexico.

Ed D'Agostino: Yeah, my concern with China and Mexico would be mainly tied to the cartels and money laundering. And just this global infrastructure that Sam Cooper is a Canadian journalist and he writes about this all the time. He has a great Substack called The Bureau. And I read it perhaps too much because he goes so deep into this and you know.

Jacob Shapiro: Yeah, just remember though that the cartels profit when Mexico profits. So the cartels have a vested interest actually in the Mexican and US economies trading more and more US capex in the region because that gives them more opportunities on the ground. It's bad for business if the cartels are letting China destabilize all these new supply chain routes that they

can take taxes on and, you know, apply, you know, get their bribes and everything else they need to build factories and these particular things. Like, I think the cartels are actually much more self-serving than that. So will they take money from the Chinese? Will they do something that's opportunistic? Sure. But in a world in which US companies are spending lots of capex to build factories inside of Mexico, I imagine the cartels are looking at that and salivating at every bribe to build something on the ground in Mexico. Every unofficial toll that you can take from a truck that is going across the border. That's much easier business than transiting drugs.

You might be able to go to lunch on that and not have to worry so much about what's behind your back. So, yeah, I take your point and I take your point about the cartels there. I think it's also, remember the cartel situation in Mexico. I won't say it's great, but we have gotten to a point where we're consolidating now to a couple larger cartels that control things. Post-2008, where the United States was pushing the then Calderón government to war on drugs and go after the cartels, the impact of that was not to destroy the cartels themselves. Instead, what happened was you knocked off the major cartels and then you had a splintering of smaller cartels who started, you know, upping the violence quota so that they could get more territory and they started stitching people's faces to soccer balls and just how much more territory can they claim. That's finally consolidating a little bit. We're going back to there's the three or four mega cartels. That means corruption is more ingrained in the Mexican political system, but it also means we're not having turf wars between 10 different splinter cartel groups that are trying to establish their authority over different ports or different parts of the country. So ironically, it should be a little bit more stable and you should have cartels that are making decisions based on self-interest and what is best for them rather than some of these turf wars.

Ed D'Agostino: Can the Mexican government ever really get rid of the cartels? Is that just not possible at this point?

Jacob Shapiro: That's a great, great question. If you look at the history of Mexico geopolitically, the borderland between the United States and the center of power in Mexico, Mexico City, has always been dominated by bandits or cartels or there's never really been government writ there. There's a reason the United States border stops where it stops. They could have gone further if they wanted. It wasn't like the Mexicans were going to go after them. But anybody who's read Cormac McCarthy knows this. This is a lawless place where lawless and evil people absolutely do the best. So Mexico, just by virtue of its geography and the US, that's always going to be a lawless space. The geography of that sort of means that in general. When you think about how Mexico has dealt with previous iterations, what it has usually done is that it basically swallows the cartels into the normal economy. It assimilates them. And then you get a new class of cartels or bandits or whoever else who try and take advantage about that geography. That's a much more sympathetic way of describing what the Morena government's policies, especially under AMLO, were towards the cartels. I think he called it, what was it, hugs and kisses or something like that, an amnesty for cartels. What that really means is, let's bygones be bygones. How about you come in from the cold and be part of the Mexican economy and we won't go after you and you won't kill and behead people on the border and we'll all sort of make more money. So can you get rid of the cartels completely? No.

But can you make it in the interest of the cartels to not disrupt trade policy and economic growth and things like that? Yes, I think you can probably do that. Now you have to swallow that you're going to not declare war on the cartels and that you sort of have to have a working relationship in some sense with them, which is difficult. But after 15 years of drug war, Mexicans would probably be willing to do just about anything. I'll tell you one other last anecdote, and this is just an anecdote, so I can't tell you whether it's true in Mexico in general. But when I did my visit to Brownsville earlier this year, at the time, one of the headlines, it's crazy to think that was only like seven months ago. One of the headlines was that Trump was threatening to deploy the US military into Mexico to go after the cartels. And I would ask people down there, does that piss you off? Does that inflame Mexican nationalism that the US is talking about unilateral military deployments in your country? And every single person I talked to said, my God, please send them. These cartel guys wouldn't last a second against the Marines or anybody else that you're going to send in. If you actually like take them out, wonderful. So I don't know, like maybe there's something there to talk about. I think the average Mexican just wants, in the same way that we saw this in El Salvador, I think the average Mexican just wants stability, just wants security. And they will put up with a lot if you can give them that security because that has not been their experience since 2000.

Ed D'Agostino: Wants to live their life, right? Yeah.

Jacob, I could go on for another hour with you. We haven't even touched on the Middle East, so we'll have to get back together and do it again soon. Thank you, sir. Always great to see you. Appreciate your time.

Jacob Shapiro: Good to see you too.