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BEYOND THE CRISIS?
THINKING STRATEGICALLY ABOUT MEXICO'S ECONOMIC FUTURE

Washington, D.C.
Friday, June 25, 2010

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PANEL THREE: THE POLITICAL ECONOMY OF LOW GROWTH IN MEXICO:

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P R O C E E D I N G S

MS. GRAHAM: Okay. Well, welcome to the last panel. Please, *si se puedan tomar asiento por favor*. This is a panel on the political economy of change, so how do we actually make all the changes happen in reality?

I'm Carol Graham. I'm a senior fellow here at Brookings.

We have two wonderful panelists here today. The first is Jesus Silva-Herzog. He's a professor at ITAM in Mexico in the law school. He's been a Mexico public policy scholar at the Woodrow Wilson Center. He writes a weekly column in the newspaper *Reforma* and is a regular contributor to other Mexican publications. He's the author of books with wonderful titles I must note, in particular, *La Idiotez De Lo Perfecto* and *Andar y Ver*. So, we look forward to hearing from him.

Our second speaker is my colleague here at Brookings, Vanda Felbab-Brown. She's an expert on international and internal conflict issues and their management, including counterinsurgency, and focuses in particular on the interaction between illicit economies and military conflict. She's a fellow in the Foreign Policy program here at Brookings and focuses on Southeast Asia, the Andean region, Mexico, and Somalia. She's also the author of a book with a wonderful title. Her book is called *Shooting up Counterinsurgency and the War on Drugs.* It was published by Brookings, and it's here in the bookstore if you want to get it after if she interests you, sparks your interest enough with her remarks.

So, with that I'll turn it over to --

MR. SILVA-HERZOG: Thank you. Thank you very much. It's been a really wonderful seminar. I want to thank for the opportunity of talking today here. And I think we've been hearing a lot about a success story that has somehow stagnated, the success story of NAFTA, something that hasn't been able to deliver up to its expectations, and I think that's basically the same story that we can tell about political change in Mexico that has been an outstanding success story. Mexico has changed its political system from a basically one-party system, an extremely centralized political system, an authoritarian political system up to pluralistic, democratic system in which federalism has come alive, in which criticism in the media has grown enormously, and in which there is no longer an owner of politics as it used to have. Mexico's politic hat had an owner, and it was its

president. But that success story has also stagnated and has also become one of the main obstacles for change -- economic change, social change -- that Mexico needs.

I think that Mexico's democracy has come up to create a very broad, a very powerful coalition for the status quo. The child of democracy has been this very wide coalition for a very wide conservative coalition, and if that exists, it's basically because there have been winners. There are clearly winners of the status quo. There are very powerful actors that know what their interests are, that know what they need to do to preserve their privileges, and that are also well connected to the political structure.

I would emphasize also that this very broad coalition, very broad conservative coalition, has also been helped by an idea of politics, an idea of change that has been defining Mexican history throughout the 20th century and in this decade of the 21st century, and that is the extreme value of consensual politics in Mexico.

Mexico had basically one century ago a very violent episode, its revolution. After that episode of conflict, Mexico generated a political system that privileged consensual politics above all, and it was not a democratic system, but it was in comparison to its Latin American neighbors. It was not a dictatorship; it was not a political regime that established violence, force, military measures to hold its control of power. It was a consensual authoritarianism.

That might have been the basic characteristic of Mexican authoritarianism during the 20th century, and consensualism was not only the rule of the game in authoritarian politics, but it was also the basic path of democratic transition in Mexico. It was a transition in which the authoritarian regime had the first and maybe the last word in defining the path, the rhythm, and the goals of electoral transition. It was therefore a transition, a democratic transition that had only -- basically had one arena and that was electoral change. It had basically one space in which change was enacted, and it was electoral rules and the rules of parliamentary representation. But it basically left all the structures of that authoritarian regime in tact. During these panels, we've been hearing about those arenas of the authoritarian regime that are in tact, and they are still pretty much alive in Mexico's democratic structure.

What are the elements that define this broad, conservative coalition in Mexico? I

would say that the elements that are keeping this conservative coalition are institutional; also have a stronghold in political culture, in political organizational, and also in the styles of leadership. Institutionally, we lived in Mexico. An important change that, as I said just a moment ago, had basically the arena of electoral change.

But in terms of constitutional structures, almost no change has been enacted in Mexico's recent history. The presidency therefore in Mexico is basically a very weak presidency. Mexico was under the spell that we had a very strong presidency and the legend that we even had an imperial presidency, because during the *aprista* era, one president could blink an eye and nationalize banks, and the other one can blink the other eye and privatize banks.

But that power of the presidency was not based on constitutional powers, but it was based on the links between the party, the president, a disciplined party, and a noncompetitive electoral system. The president was the leader of an agumonic political party. The party was disciplined to the leader of that party which was the president. Those conditions are no longer in place in Mexico, and therefore we see that the emperor is naked. We see that it does not have the powers that it enjoyed during the last half of Mexico's 20th century. It is a weak president in comparison to its colleagues in Latin America. It's not as powerful as an Argentinean president, as a Brazilian president. Of course it's not as constitutionally powerful as the Venezuelan president.

It has in front of itself a very powerful congress, a congress that is basically the source of all relevant reforms in Mexico. But what can we tell about that congress? As Ambassador Sarukhan said a couple of hours ago, it is a nonaccountable congress; it is a nonresponsible congress; and it is also a nonprofessional congress.

Mexico's revolutionary institutions created a strange anomaly in the structuring of Mexican congress, that it was -- in the absence of competition, there was a way in which political class was renovated, and that was the provision in which congressmen could not be reelected. That was a brilliant idea in a noncompetitive system. It was a brilliant idea to establish a measure to force renovation of the political class through the prohibition of a professional parliament. But it's a terrible idea if you have a democratic structure. It is not only a very bad idea in a democratic congress to have non-reelection provisions, because it prevents professionalism in Congress, but it also limits the

scope of time in political calculations, and Mexico has the drama of living up to a very short period of political calculations. The Mexican political clock has no possibility of medium- and long-term calculations because of the constitutional provisions.

We have in Mexican congress also something that could have been valuable for negotiation and agreement that we basically have a limited, pluralistic congress. We do not have a terribly polarized congress. Almost 90 percent of congressmen in today's lower chamber come from three big political parties. Mexico has basically, in our House of Representatives, a political system that's basically a 2-1/2-party system, because the PRI and the PAN basically have almost 75 percent of the representatives in the lower chamber. But we vowed reelection, and having basically disciplined parties, it is a congress of veto structures that from 1997 to this date have defined Mexico's politics.

From 1997, Mexico has had a political structure with no governing coalition. Mexico has had the renovation of its politics through elections. Mexico has regenerated its electoral coalitions. But it has not been able to generate a new governing coalition. So, therefore, since 1997 we've been living with a democratic structure that has been unable to deliver political economic change.

Wow, I have to speed up.

Change has been living in Mexico's recent history in the electoral arena but not in the constitutional arena, but it has also been unable to deliver in the arena of social organizations. And maybe one of the strongest elements of this conservative coalition is living outside of the constitutional structure and it's basically the space of Mexican corporatism. Mexican corporatism, that very strong alliance between the government and social organization and workers unions but also in the arena of big businesses, was one of the instruments of governance in the authoritarian time. Governance was helped. Corporatism was instrumental for that authoritarian governance.

With a democratic structure, those very strong unions that were conducive for authoritarian governance are basically one of the most -- one of the strongest veto players for Mexican change. They are non-democratic as there used to be, but they are no longer allies of the government. They have been able -- these corporate structures -- they have been able to

understand political change and their benefit, and they are no longer one party corporate structures. But they're basically three-party corporate structures in which we can say that they are unions that are allied to the PRI, that they are unions that are allied to the leftist party, the PRD, and unions that are allied even to a conservative party as the National Action Party. But they are finally, ultimately, veto players that have control over congress and that are successful in blocking the opportunity of change.

I would end the presentation with three basic characteristics of Mexico's new democracy, Mexico's democracy that was I believe born in 1997 when the president lost control of congress. Mexico's democracy has been an unproductive democracy that has not expanded the possibilities of politics but even has restricted the spaces of what's politically possible. It has been a captured democracy in which democracy has not been able to deliver for the public good but to deliver for the special interests that have a hold in its political structures and, finally, has become an enchanted democracy in the sense that there are those areas in which a change is urgently needed -- have been considered by the political actors in Mexico's system as untouchable in which there's a wide consensus that there's urgent need to change education policy, energy regulations, competition regulation. All these things are necessary or urgent, but they are enchanted in the way that no one could be able to touch them, because there is the defeat of the ability of politics of delivering change, and the threat that if those things are touched, if those things are to be changed by the political class, Mexico would go again into a chaotic synergy. So, we are trapped in these threats of what is urgent but what's impossible.

Thank you.

MS. GRAHAM: Jesus, thank you very much. I can't say you've left me too optimistic, and knowing what Vanda works on and some of her work, I hesitate to say we look to her for enlightenment, but I'm sure we look to her for an insightful comment.

MS. FELBAB-BROWN: Oh, thank you.

Ambassador Sarukhan and President Moreno opened today's conference by stressing that the talk would be about other issues than drugs in Mexico and that the focus would be on deeper structural issues that move beyond the current grip of the drug violence, and it is perhaps

ironic then that Mauricio asked me to be the last panelist to speak about drug violence and its economic implications and sources. And indeed Mexico opportunities and challenges are of course much more multifaceted than the immediate violent crisis, and the U.S.-Mexican relationship is far more multifaceted than the drug trade. Nonetheless, the violence of the current levels cannot escape public attention and has deep effects on the economic situation in Mexico and is also fed by the structure of Mexico's economy. And so in my presentation I'm going to weave in and out of talking about how socioeconomic tools can be used to combat criminal violence and criminality in general but also talk about how the basic political economic and macroeconomic design of Mexico limits and influences what kind of anti-organized crime tools and anti-criminality tools can be adopted and what kind of changes can be expected from policy such as the Merida Initiative and the recent follow-up to it, Beyond Merida.

Let me start by giving you some grim dynamics on the violence. According to *La Reforma* as of mid-June, drug-related murders this year reached 5,230 murders, which is just about 1,300 less than what was the total for last year, and last year was already another yet record-breaking year. If you look at Ciudad Juarez, the levels of murders there continue to be particularly bad despite all the policies that have gone into Ciudad Juarez.

The U.N. usually classifies an epidemic level of homicide about 10 per 100,000 per year. In Washington, D.C., one of the very violent cities in the United States, over the past decade there has been about four. In Juarez today it's about 200.

Let me stress here that violence itself is not necessarily a good indication of the one party, the state, or the criminal organizations are making progress. It might very well be that you have no violence and drug organizations are fully in control, or it might be that despite the violence, policy is in fact generating some substantial pressures. Nonetheless, this level of violence does matter very substantially for society, including for economic businesses.

It is often said that while the violence is not so bad because it's the narcos killing the narcos; it's the bad guys killing the bad guys. So, you know, we can somehow live with that. Well, that would be the case if they were killing each other on the moon. But as long as they are killing each other on the streets of Mexico, as long as the bullets are flying around and over and

increasingly hitting the civilians, they are having very deep impacts on how society organizes itself.

Such levels of violence deeply eviscerate the associational capacity of a society. That has implications for economic activity. Such levels of violence of course totally overwhelm law enforcement, which then breeds other forms of illegality, and in fact we have seen great rise in kidnappings in Mexico, great rise in extortion of legal businesses. In fact, in Juarez, the city really is just acutely and at this point almost chronically hit by the issues. Many streets are simply the word of life. Restaurants are shut down the middle of day. Various *la casinas* just won't be serving food. You see many businesses with signs For Rent.

And of course, Juarez is a transient community. It's a community whose vast expansion was very much driven by the *maquiladoras*. It's a community that is not deeply integrated, but all of that compounds the effects on economic separation, and also a lot of economic separation cannot just be attributed to the general downturn in Mexican economy and in the U.S. economy. Nonetheless, violence is clearly having an impact. And you hear steady reports of businessmen complaining that they are moving out because they face the need either to pay extortion rents or face violence to themselves and their families or they simply shut down.

Another discouraging development over the past several months has been the expansion of violence into major tourist areas. It's no longer just the major cities along the north, but it's increasingly Cancun; it's increasingly Acapulco. Recently Taxco. All cities that have had drug violence have had drug trade, maybe with the exception of Taxco. But certainly I haven't seen the level of violence that they are seeing.

And why this is bad is of course because the tourism economy, apart from being an important sector, is also one of the few economic sectors that were actually generating new jobs and employing people. So, in a downturn day, it has big social effects.

Yet another very discouraging development has been the systematic effort on the part of the drug trafficking organization over the past two, three years to take over the informal economy, and Dr. Levy gave a very elucidating presentation on how detrimental and how structurally driven the informal economy is. Well, the political implications of illegal entities -- violent illegal entities, like crime organizations -- to have control over the informal economy are of course profound.

We have to remember that by some measures the illegal economy accounts for about 40 percent of Mexico's economy. It's a very large number. The level of poverty is also roughly about 40 percent.

Now, there is no easy relationship between poverty and crime, but nonetheless when (inaudible) one-on-one correlation, but nonetheless when crime becomes acutely violent and highly motivated to acquire political power, it is far easier for it to do so in the context of great poverty and informality, because the marginalized people in informal economies and illegal economies are highly susceptible to becoming dependent for employment on organized crime groups and also seeing them as the political distributors -- the new patrons.

And this is not simply a problem of the very poor states in the south and in the center of Mexico, like Quedero. But even in places like Sonora, based on estimates the illegal economy related to the drug trade is about 20 percent of the state's GDP, which includes spillover effects related to restaurants, hotels, etc., as drugs are moving through the city.

One of the things that would be very high priority for me if I was designing the counternarcotics efforts as Mexico or efforts to minimize violence would be think how in view of the fact that it is this very systematic push by the drug trafficking organization to take over the informal sector, to dictate who can sell on the Zocalo, be it tortillas that are made in the home or be it a much greater skill in the informal sector. What can one do today to prevent this takeover? How can one make the informal sector more resilient to efforts by the drug trafficking organizations? And one is, of course, to say well, we can formalize a sector, but that goes into all the difficulties that Dr. Levy mentioned.

And this also then presents a very acute dilemma with respect to designing policy. On the one hand, the structural changes that would reduce the informal sector are of course critically needed -- difficult to achieve, but particularly needed -- but at least in the short term they would likely result in substantial socioeconomic dislocation and perhaps far greater susceptibility by the informal sector to be mobilized and captured by illegal organized crime entities. And at the same time of course, in the long term, to address the structural drivers and the structural deficiencies that allow organized crime to be so strong if not so violent in Mexico, one needs to look at this deeper sociopolitical, economic setup and arrangements.

Beyond Merida has introduced many great improvements to policy, in my view, and I just want to single one of them, and this is now recognition that socioeconomic policies need to be part of the package of addressing criminal violence, and specifically one pillar of the policy called Building Resilient Communities specifically focuses on how people will not become feeders for the drug trafficking organization, how to re-use the inflow of hit men, how to preserve the capacity of communities to organize, to associate, and not be debilitated by violence.

Nonetheless, employing such socioeconomic policies is very hard and often takes a lot of time, and there is a great danger in over promising too much too quickly. One of the initiatives unveiled was the hundred days of Juarez, which I believe now are expired or if they are not expired now they will expired in a day; and in many ways it was a wish list of economic -- socioeconomic goodies that would be great to have in Juarez, but that did not easily materialize. And one then needs to be wary about expecting too much of socioeconomic policies to deal with organized crime quickly, but also over-promising too much to communities so that they don't become very disappointed and lose even greater faith in the state that they might have to start with.

One of the key issues of course is how to generate jobs in the legal sector so that people could be pulled out from informality and outright illegality, and for many economic development issues, this is always the hardest one. It is far easier to do infrastructure development; it's far easier to do even microeconomic reform than to focus on how one generates growth, especially in challenging environments, highly violent environments, and environments with structural efficiencies. And so in the context of Mexico's economy, even with it was growing it was not generating very many jobs. This remains an acute challenge.

So, if you think about it in the context of Juarez, what are the options for generating jobs from the at least immediate shorter need to reduce the problem of the cartels? Well, the typical policies include infrastructure building. We can do more of that certainly. They include housing, building more housing; and they include hiring people in the security sector. Well, infrastructure implement is one option for Juarez. The problem is that these jobs usually run out very quickly, and they are limited time duration. Housing? Well, there already are so many houses for rent in Juarez that there is really no point in building any more housing. And hiring people into the police or even

into the military of course needs to be balanced against the need of conducting police reform in Mexico and vetting recruits so that people are not simply hired as informers for the drugging. So, no easy project. Important, very important to understand that a key part of using the organized crime is focusing on generation of legal jobs but very difficult to do.

Let me then conclude by stressing that ultimately for even the socioeconomic programs to be limited, they require -- to be effective even on a limited scale, they require a degree of security. It is simply very, very hard to get any legal economy going in the context of violence. There is no coincidence that illegal economies usually thrive in violent areas, just one consequence that legal economy doesn't thrive, and then people need to be employed somewhere.

The requirements that an illegal economy have are far smaller than those that a legal economy have. Nonetheless, even the illegal market is deeply distorted in Mexico today. These levels of violence are truly extraordinary. Drug markets are usually not this violent by any stretch of imagination. I mean, we have drug markets being caught up in civil war, like, for example, in Columbia or elsewhere, but normal drug markets do not behave this way. So it is perhaps a hope that the market will simply burn itself out in the illegal sector.

But nonetheless, it needs to be a key priority in Mexico to bring the levels of violence down, because without bringing the levels of violence down, political support will fall off for reforms in police and other institutional reform. All macroeconomic reforms, even limited socioeconomic programs, to address the burning needs on a micro level in cities will not work or they'll be at least deeply hampered and ultimately because the important function of a state is to provide public safety.

MS. GRAHAM: Thank you to both of you.

Well, sir, I'm left thinking that we've got an enchanted congress that's nonfunctional and the only solution to the drug market is that it burn itself out. Not a very positive picture, so let me just take advantage of the Chair for a second and go back to the two panelists and ask you to each think in the area of the intersect between this political system with its limitations and the challenges that the drug violence poses and ask each of you if you can think of or identify any kind of glimmers of positive progress or positive change, and then we'll open it up for discussion.

MR. SILVA-HERZOG: Well, I think there's an area of optimism in the sense that there's a growing agreement in Mexico that things are not working well in the political arena, that things are not doing as good as they should be. The recent elections or federal elections last year in 2009 were interesting because they sort of showed that there's a growing distance between the citizenry and the political parties, and in that sense I believe that the parties realized that and there are now in place several initiatives to tackle political reform. I think that's an important change in Mexico, that if we believed a couple of years ago that things were basically the responsibility of several persons or people that were not able to deliver, I think we have been reaching an agreement that there's some institutional trap, that it's not the inability of one president or another, but there's an institutional trap that should be tackled. In that sense, I think that's important, and I would say that there are basically two ways to address the issue of political gridlock in Mexico. One is the initiative that President Calderon and some leaders of the PRI have been stressing that is the idea that we should engineer political reform in Mexico so that the president is likely to have a majority in congress, to have a second round in the presidential election as President Calderon believes, and also he thinks that congress should be elected in the second round so that there's a likelihood that the president -- that the party that wins the presidency also wins congress.

But there's also another perspective that believes that instead of giving the president a majority, which President Calderon would believe that it's a good thing, the other perspective is to establish more of a parliamentary structure in Mexico that would create a coalition not giving the president a majority but furnishing that coalition in congress so that there is a majority that has been born after negotiation in congress. So, if I believe that there's an optimist thread, an optimist avenue, in Mexico, it is the realization that political change is needed nowadays.

MS. GRAHAM: Thank you.

Vanda?

MS. FELBAB-BROWN: I do believe there have been many great improvements in the impotite of policy in Mexico to tackle the drug violence, and indeed the Beyond Mérida that focuses on not simply high-value targets, stress on institutional reform and capacity building, civilian capacity building in Mexico, focusing on building resilient communities and building secure but

competitive borders are all going very much in the right direction.

I also do believe that Mexico is fortunate to have a very committed leadership to prevail, and there has been progress on police reform issues certainly. There has been progress on implementing judicial system reform. One of the big outliers that still need to be tackled is correction of facilities reform.

The big issue of course is that a lot of this reform often takes a generation. For this reform under the most optimistic scenarios -- and it very rarely happens that it will be achieved easily -- it's a generational issue. Judicial system reform can easily take longer. Seeing the impact of socioeconomic programs is in some ways immediate but often takes far more than a matter of months or a year and to be visible. And at the same time, if these institutional reforms -- the inputs are taking a place in the right direction, but there is no immediate visibility of outcomes. It's extraordinarily hard to manage public support. And the levels of violence -- it'll be just very, very hard for Mexico to continue on the pace of the good policies that are being implemented and to continue that even after President Calderon leaves office.

So, in my view, there is a need, perhaps an opportunity then, to focus on some critical areas where progress can be demonstrated. Juarez has been selected to be one of these model examples, and unfortunately we have yet to see the result. It has really not been panning out over the past few months.

But it's very hard to imagine that you could -- unless there is policy -- annulated change in the drug market, the violence just burn itself out because the cartels cannot keep up the pace that they are keeping -- and there is no indication right now that we are at that point -- there is no immediate or inevitable causal effect of policy inputs generating election violence in the near-term future. So, in that case, focusing on some critical areas to demonstrate progress to shore up public support would be very important, and that means concentrating law enforcement forces, but it also means concentrating socioeconomic forces rather than promising a big wish list, moving neighborhood by neighborhood, showing progress on a very low level, but nonetheless showing demonstrable progress is one way to keep political support under extraordinarily challenging circumstances.

MS. GRAHAM: Thanks to both of you.

Now we have a little bit of time for questions. Maybe we could collect two or three and then we'll let the panelists respond as briefly as you can.

Back there --

MR. DESAI: Yes, Rahul Desai from the Inter-American Development Bank.

My comment is I guess when we talk about Mexican democracy we're being a little bit generous, because I guess with all the impediments that Dr. Silva-Herzog and Ambassador Sarukhan talked about, in some ways today it's more of a "partytocracy" than a democracy, because one of the effects of not having reelection of legislators is that they are more responsive to their party leaders and not really to their constituents, and most constituents -- you ask people in Mexico who's your congressman, I found very few people who even know.

I wanted to ask, Dr. Silva-Herzog, more specifically that President Calderon did have a big initiative that he announced earlier in this legislative session to deal with things like reelection and *segundo vuelta* and things like that, and it seemed like it had a lot of momentum for a while, but it sort of, you know, was on the top of the papers every day, but then suddenly it just kind of disappeared, so just his view of has this thing really died or can we see it come back to life in the next session?

The other comment I just wanted to make on the drug situation is that clearly it's bad, but I think -- my view is there's a lack of equilibrium right now, because there's competition between the cartels and competition between the cartels and the government to see where this thing will -- and hopefully win some equilibrium, and, I mean, it's not pleasant to talk about -- is established, I would hope to see lulls. I mean, look at this city. There are drugs trafficked in every nightclub of this city. Just go to the park on 14th Street and see all the drug traffickers there. But we don't have the levels of violence. So, we need to be a little bit less hypocritical, too, if we think that drugs is just an issue there. I mean, my view is id drug trafficking in Cancun has increased; it's probably because there are so many American tourists who are buying the drugs there.

SPEAKER: Pass.

MS. GRAHAM: Okay, we can take two more questions. Please be brief if you

could, because we're really overtime.

MR. HUGHES: Philip Hughes from the White House Writer's Group. Brevity is impossible for me, but I'll see what I can do.

Listening to the presentations on panels 1 and 2 would lead to the conclusion that more than anything else, to overcome some of these economic challenges Mexico requires decisive leadership, and that will require in turn a considerable measure of political consensus. But Dr. Silva-Herzog has described to us a kind of paralyzed political system with large sort of no-go zones, if you would, for political action, because those are sacrosanct areas, and between the two of these panelists, we've further been introduced to -- well, actually you didn't comment on it, Dr. Silva-Herzog, but it seems to me it's there -- two Swords of Damocles that hang over this Mexican political system. One is the PRD, the extreme left, and the likelihood, I would argue, of a counter-reaction to the market-oriented and opening initiatives that were implied by the first two panels and, of course, the Sword of Damocles of violence and organized crime, which will take advantage of anything that weakens the government to open space for their further action. So, isn't that a prescription for the safest thing to do -- to be -- to do nothing?

SPEAKER: I'll try to be very brief. If you could comment at all on any of the differences in the political structure or the -- let's even say the state in Mexico versus Columbia and what that might mean for progress on the attack on drug criminality.

MS. GRAHAM: Okay, well, you have some rather major issues. Just if -- again, we're really overtime, so if you can just take the ones that you really want to as briefly as possible.

MR. SILVA-HERZOG: First of all, in the issue of political reform, the reform that President Calderon proposed, I think it's a very ambitious political change in Mexico. I think it has a merit that it -- that it's a second generation political reform in Mexico, the second generation of reforms that I think we are needed. But I agree with you. I think it generated a lot of expectation. Everybody was talking about that initiative. But it sort of -- it wasn't carried out by the administration and was almost rejected by the opposition parties. It was basically rejected, because they have other ideas of political reform and they have been negotiating these reforms in Congress.

I have the -- I am under the impression that a political reform will be passed. There

are areas of agreement between the government party and the PRI in several issues. I think that there might be important changes in maybe reelection of congressmen, maybe in the establishment of a referendum procedure in Mexican constitution in several other areas but not as big a reform as President Calderon believed.

And then I agree with you. There's -- underneath the issue of institution lies the protagonism of leadership. I think if Mexico has lacked something in the last generation, it has been a generation of political leaders in the basic three parties of Mexico. Mexico has not had the leaders it needed in these three parties.

Is this is a recipe for inaction? I don't know. I think that there's something that worries me is that the PRI is headed for recovering power without an internal reform. I think that is a very troubling message for Mexico, that the lack of success of the panista government, the implosion of a leftist alternative just lifts the PRI in the way to recover power without the need of defining itself, of defining its proposal to the future, and without a real change in its ideas and culture.

MS. GRAHAM: Thank you.

Vanda, you have the last word, but a brief one.

MS. FELBAB-BROWN: With difficult questions. I'll answer them quickly.

On the equilibrium in the drug market, I agree with you. I mean, I stress that this is a very aberrant market. This is not the way drug markets normally look. The reality, however, is that a lot of the policy inputs, as well as the internal dynamics on the drug market, are all pushing toward disequilibrium. They are not pushing toward equilibrium, and there is no easy way to imagine how even the expansion of the policy away from high-value target generated a lot of the instability, but even the more broader approach to the drug trafficking organizations quickly leads to reduction in violence. And, similarly, there is too much uncertainty from the perspective of the drug trafficking organizations with respect to balances of power, with respect to networks of corruption and networks of access to generate equilibrium among them yet; and there have been attempts at negotiation among the groups, and they all collapsed. There's been big fight -- continues to be a big fight over Juarez because there is no easy way right now to establish some sort of balance of power and equilibrium, and I don't see that we have reached the stage where there is either internal pressure or

policy pressure that leads toward equilibrium.

That comes to the question -- the second question of the gentleman -- is this not a prescription for doing nothing? Certainly in the security public sector, public safety sphere, I would say that it isn't, because the current levels are just simply unsustainable.

So, my worry is not that the government will decide to do nothing. The government has to respond. My worry, however, is what the government could decide to do. And if PRI wins power, there is lot of speculation would they ever try to go to a negotiated agreement, corporatist agreement with the drug trafficking organization they used to have. I mean, I'm not really worried that this will take place at the national level, because I think the political circumstances have changed, and also the drug trafficking organizations are way too fractured to be able to imagine that they could enter into such a bargain. But I am very worried that you could see this kind of corporatism arrangement being established at the local and the municipal level.

And in some cases you, in fact, already have the drug trafficking organization dictating the political terms at the municipal level. In some cases, you, in fact, already have the drug trafficking organization dictating the political terns at the municipal level. And that in my view is a very bad outcome that the whole purpose of the policy should have been to reclaim the authority of the state, the territorial control, and the domination of the public safety sector.

On Mexico and Colombia, they are very different cases. First of all, as I stressed, Colombia was going through a very major civil war with the leftists getting lost to FARC, numbering around 20,000 at their peak. Today they number about 9,000. The paramilitary groups numbering maybe 30,000, the ELN being, you know, at its peak 5,000. The numbers are considerably down. And they function as organized army that controlled entire, very large sectors of Colombia's territory, especially, of course, the periphery.

In Mexico we don't have that. We don't have the civil war political component that we have seen in Colombia. We also don't have anything on the scale of the armies that we saw in Colombia. That said -- and actually not a very important difference is that the drug trade in Colombia was very much driven by the cultivation of coke on a very large scale, and although there is robust and apparently higher-up cultivation of poppy and marijuana in Mexico, a lot of the drug creation is in

processing of drugs and in smuggling. And it's very important from political reasons, because these last two aspects are not labor intensive.

So, while the Colombian paras and the guerillas could tap into hundreds of thousands if not millions of people, depending on outright illegality, you don't have these same numbers at all in Mexico. We're talking maybe a hundred thousand people in outright illegal drug sector. But the more the cartels will be able to take over the informal economy, the greater their political power, and that's why I'm very worried about this increasing link and pressure.

I think that both countries are benefiting from U.S. assistance, and clearly one of the reasons why Colombia was able to achieve such great turnaround in the situation was as a result of effective U.S. help in reforming the military especially. And Mexico is now in the unprecedented cooperation with the U.S. in police reform and security, public safety sector reform, as well as in building institutional capacity. But all of our experience tells us that it's far easier to do military reform, it's far easier to bring our militaries up to speed and make them effective against insurgents than it is to do police. It is far harder -- urban fight or urban anti-crime is far harder and police reform is just much more challenging, and the United States and the world globally has far, smaller levels, in fact very, very small levels of success in effective police reform, and it takes a lot of time.

MS. GRAHAM: Well, thank you very much to both our panelists. I feel a little more optimistic now than I did at the end of both presentations, but a lot of challenges there. It's been a wonderful conference.

Mauricio, do you have anything to say, or we'll close with that? And thank you all for attending.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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Expires: November 30, 2012