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TACKLING ORGANIZED CRIME IN MEXICO:

CHALLENGE AND OPPORTUNITIES

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P R O C E E D I N G S

MR. PICCONE: Good morning, everyone. Can you hear me? Is it turned on now? All right, great.

Thanks for your patience. My name is Ted Piccone, I'm a senior fellow and deputy director of the Foreign Policy Program here at the Brookings Institution.

Today's program is on Mexico, as you know. And I think we have in front of us some of the best experts in town to talk about this issue. So I think we'll leave after an hour and a half really full of a lot of good information and analysis. Let me introduce the panelists and we'll get underway, since we've got a little bit of a late start here.

The kind of initiative for this particular event is to talk about some recent research that Vanda Felbab-Brown has been doing in Mexico. You should have received copies of the report on your way in. The report is called, “Calderon's Cauldron: Lessons from Mexico's Battle Against Organized Crime and Drug Trafficking in Tijuana, Ciudad Juarez, and Michoacan.” What's really special and interesting about this report is it covers some interesting on-the-ground reporting that Vanda has done in the field talking to a variety of people on the ground. And this captures, I think, some important issues that are happening kind of from the ground level. And we'll hear more about that from Vanda, and then we'll hear

from the other speakers.

So, Vanda -- which -- who I hope many of you know -- is a fellow here in the Latin American Initiative. She also is associated with our 21st Century Defense Imitative, because she covers a wide range of issues. She works on illicit economies; she works on issues of counter-insurgency. Regionally she covers the world spanning Afghanistan to the Andes. Her most recent book is *Shooting Up: Counterinsurgency and the War on Drugs*, which is available in our bookstore outside the hallway. And she's a frequent commentator who has issued a number of policy briefs and op-eds on these issues and testified before the U.S. Congress.

We're then going to hear from John Bailey, who is a professor of government and foreign service at Georgetown University, where he directs the Mexico Project in the Center for Latin American Studies there. He's a longtime expert on these issues and is currently working on a forthcoming book titled, *The Politics of Crime in Mexico: Democratic Governance in a Security Trap*. He's also a columnist for the Mexico City Daily *el Universale*.

We will then hear from Andrew Selee, who is the director of the Woodrow Wilson Center's Mexico Institute, and also teaches across the street at Johns Hopkins University. Andrew has been on a tear lately issuing a number of books and publications, most recently

The United States and Mexico: More Than Neighbors. And we'll hear particularly from him on U.S.-Mexico cooperation.

We will then turn to Dr. Kevin Casas-Zamora. Kevin is a colleague of mine here at Brookings Institution and Foreign Policy. He was formerly the Minister of National Planning and Economic Policy and a Vice President of Costa Rica. We're very happy to have him here at the Latin American Initiative.

Kevin will be taking on some additional assignments here. I don't know if any of you have seen the news, but the current director of our Latin America Initiative, Mauricio Cardenas has just been appointed by President Santos as the new Minister of Energy and Mines in. And Kevin will be stepping up as the interim director of our Latin American Initiative. And we will be hearing from him, particularly on the spillover effect on the crime issue in Mexico on Central America.

So let me start by turning to Vanda. We're going to speak from the podium, and then we'll go to a period of questions and answers. Thank you.

MS. FELBAB-BROWN: Thank you very much. It is a pleasure to be here with you this morning.

Oh, sorry. That -- did I say Kevin? It was a pleasure to be here with you this morning. Although we'll be talking about a very difficult

issue. I mean, just this past week yet another very brutal act of violence has taken place in Mexico in the state of Vera Cruz, where about 35 bodies were tossed from a highway onto the road underneath as the drug -- the gunmen of the drug trafficking organizations blocked the road.

And indeed what has characterized the violence in Mexico and the drug market in Mexico is really the extraordinary violence that is very apparent even from the perspective of drug markets.

Violence that takes place in Cuidad Juarez or has taken place in Cuidad Juarez, once a day in Mexico. There's on the order of 2,000 to 3,000 people per year -- is what the Italian mafia killed in about 30 years. So they kill about 3,000 people over that period -- over the period. And we've seen these violence levels in one year in Ciudad Juarez repeatedly.

So the violence levels are extraordinary, and so is the gristly aspect, the brutality, the almost competition in brutality that we are seeing there. And the brazenness with which the drug trafficking groups operate, with a great sense of impunity and visibility. So all of these are really very atypical behaviors of a criminal market, including drug market.

And so the question is, how did we get to this point? And how have policies been affecting the behavior of the criminals? Have they been effective or not?

If, from my perspective, there are sort of two big reasons why we're seeing this level of violence and gristliness in Mexico. One is the long-term, decade-long collapse of Mexico's law enforcement. The real profound hollowing out of the capacity of law enforcement and the deterrence capacity of law enforcement, because of much of what police does really is to teach criminals how to be good criminals. Understand that there are certain barriers that cannot be crossed.

But for decades the corporate system that was prevalent in Mexico under the PRI also applied to the criminal markets, with law enforcement institutions essentially managing criminals -- criminal groups. By over time, becoming hollowed-out, undermined, deeply pervaded, deeply corrupted, and losing the deterrence capacity that law enforcement needs to have.

The second more immediate impetus was the arrival of President Calderon on the scene and his understanding that the drug trafficking groups were under control, and his declaration of war or very intense struggle against them, that has very much focused on a high-value targeting. On capturing the top heads of the drug trafficking groups.

To some extent this was based on lessons from Columbia. Another reason was -- that was the existing capacity of both the military and police. And President Calderon resorted to using the military, both on

the streets for the provision of law and order -- also for high-value captures.

But unlike in Colombia, the market in Mexico was far more complex with many more groups operating not simply to large groupings, like the Maldian and the Caldicut Cartel. And the decapitation policy gave rise to very intense fighting between the drug trafficking groups over territories, over access to corruption networks, and even within the organizations over leadership, over transitions. All of which gave rise to very intense violence. So a very complex market that completely overwhelmed the response of both the military and the police.

President Calderon has tried to undertake policy reform. It's a very important aspect, and John will talk about it. But it's very hard to stand up institutions in the middle of a war. Or even if you don't call it war, in the middle of a very intense struggle. It's just very hard to conduct effective policy reform under those circumstances because the energies of law enforcement just become completely consumed by responding, even if ineffectively, to the latest crime.

So not only has the high-value decapitation policy randomly striking in any group as information became available because Mexico's law enforcement deeply struggles with having good intelligence capacity, both strategic as well as tactical triggered this violence among groups. It

also motivated the drug trafficking organizations to not only try to consolidate control or, in large control over the market, but also diversify their portfolio.

And so we have seen sort of several big changes. We have seen collapse of hierarchy within the drug trafficking groups, a great deal of reliance on outside that is temporary hires, real lack of -- loss of control to great extent within the groups, which is driving some of the violence. And we have also seen very systematic effort to take over not just the drug trade but other illegal economies to vastly expand extortion of legal businesses in places like Michoacan, and to extraordinarily prevalent level -- as well as a systematic effort to at least license and franchise if not directly control informal economies as well.

So President Calderon deployed a military with the idea that the military will provide public safety until the police can step up and until the threat is reduced from a national security level to what he defined as public safety level.

Now from a strategic perspective this makes sense. The only problem is that the military was deployed with very loose mandate of what its role actually was on the streets. What its operational mandate was. And so often in places like Ciudad Juarez, the police -- the military simply ends up standing up checkpoints on the street. But of course the

drug trafficking groups learn to shoot around them, simply move away from where the checkpoint was. So many Mexicans came to perceive the military as only tying up traffic but really not affecting violence levels to a great extent.

And of course both the military as well as the federal police that was also sent out to reinforce municipal police had no local knowledge. And since the market has become so extraordinarily complex with so many local temporary actors, the need for very good local intelligence capacity is critical if the law enforcement wants to focus also on reducing violence. If it doesn't only want to focus on high-value targeting, for which one needs special but it's more isolated unites.

But at this precise -- let the policy on high-value targeting that's an important trigger of the violence. So focusing on developing local intelligence capacity so that law enforcement can start taking violence is critical.

And this month, the military started leaving from Ciudad Juarez, and we have seen big drops in violence in Ciudad Juarez. I am sure that this will be attributed to success of policy. And I think that the verdict is out. We don't really know why the violence has dropped in Ciudad Juarez. I think the good outcome would be that it's the effect of law enforcement policy.

I think you know, it's equally plausible -- perhaps more plausible -- that simply there is a division of territory going on in the city. And the follow of an operational tempo of the drug trafficking group that was simply extraordinary, way beyond what even insurgencies operate on -- that they often have far smaller operational tempo on the numbers of hits and violence that we have seen in Ciudad Juarez.

So the good outcome would be that the drops in violence are the (inaudible) out of law enforcement. But the verdict is still out, and I think it's equally plausible that it's simply changes in the drug market and the reestablishment of territories there.

This is, in fact, to what a great extent happened in another city in Mexico, Tijuana, where the Sinaloa Cartel was -- drug trafficking organization -- was finally able to take control of the city center, defeat its rivals in the city. And that allowed for very significant drops in violence, now had the control, as well as for far greater predictably extortion, kidnapping, all of which continued going on but are far more predictable -- the ransom is paid, the person is more likely to be released, the levels are more reasonable.

Now there was an important element in Tijuana in terms of law enforcement policy, which very much focused on securing the city center and decreasing the brazenness and impunity of the groups that coincided

with the victory of the Sinaloa Cartel.

And I think that should not be discounted. In fact, if law enforcement wants to be effective with these extraordinary violence levels, it really needs to focus resources. But one of the shortcomings of the Tijuana policy, I speak about in the report, is the lack of plan to expand from the very few blocks of the city center where law enforcement has focused, to broader parts of the city to move into the colonies that still continue to experience murders on one to three per day. So still very, very high violence levels.

And unlike Ciudad Juarez, Tijuana which achieved better security outcomes really has not had any socioeconomic component to its policies. This is something that Ciudad Juarez has experimented with. It's something that was very much encouraged by the change in U.S. policy called Beyond Merida by the Fourth Pillar. Focus on deploying -- using socioeconomic policies to address some of the underlying drivers of violence as well as to sort of change the allegiance of people from drug trafficking groups that depend on them for the provision of public goods and jobs to the state.

Such programs take a long time to materialize, and I think it would be very premature to try to have some definite judgment on the program. At this point they have only operated for a year. Nonetheless,

there are some reasons to be concerned and as they go on to make improvements in the policy.

One was just like with law enforcement in many parts of Mexico. The resources simply have been deployed scattershot throughout the city, without concentrating them in any particular neighborhood. And the result was a hospital that would have had 100 beds after the bad had 120 beds, for example. That was great from the perspective of the people, but really not sufficient to change any of the social, economic, and criminal dynamics.

Similar, another neighborhood that didn't have a playground for children got a playground. Again, an important element to bring public space, but by itself insufficient to really change the social dynamics. So, tying up resources, concentrating resources, and addressing all the structural drivers from roads to public spaces in a particular space is critical, extremely politically difficult. Because of course, the administration needs to justify why this neighborhood is deserving of this enormous handout from the state while other neighborhoods go lacking. So all the political pressures is to give everyone a little bit, but really it adversaries and undermines the effectiveness of these policies.

Let me make one more observation about Michoacan and then conclude with some recommendations, at which I was already

hinting. And Michoacan is very interesting. It is not only the hometown of the President and the home state of the President, but it is also a place where the government of Mexico has several times declared victory by defeating La Familia Michoacana, one of the very violent, cultish-like criminal groups.

And I was there after La Familia Michoacana was supposedly defeated as the new group, Plarios Los Caballeros Templarios, started emerging. And although Los Templarios are probably a smaller group, what was striking was still the prevalent belief that criminals, whoever they were, really control the state to an extraordinary degree. The authority did not lie with the state. The public goods from dispute resolution to access to contracts was really handled through the criminals. That the Halcones, the lookouts of the criminals, were everywhere where the state capacity, whether police or law enforcement was absolutely minimal. That the criminals were on many of the municipal councils.

And I think what the important lesson of that is that simply breaking a group down to smaller size does not change how people perceive the power of the group if the power of the state also doesn't grow at the same time. If law enforcement doesn't become a credible -- if the justice system doesn't become more credible. And yet it is the breaking

up policy that's, of course, also driving the violence. So it has very negative side effects but perhaps accomplishes less than is thought it could accomplish.

Let me make a few recommendations in conclusion. Let me preface them by saying I believe that lots of the violence in Mexico today is actually outside of the control of the state. That although government policies have contributed to the violence, that the government has actually very few levers of reducing the violence, although focus on the violence needs to become priority for the government. Then the government needs to move away from the narrative that the violence is a sign of progress, or that it's irrelevant because it's narcos killing each other. The narcos -- the violence disarrays the life of a community.

One of the standard strategies is to focus law enforcement on the most violent group. And it has many successes in the U.S., it has been replicated in other places. I think it's a good policy that Mexico should undertake, focus on in any particular territory, be the state or however the territories divide. Focus law enforcement on the most violent group to send a deterrent signal that no one wants to be as violent as the other group.

But even if Mexico adopts this policy -- and there are some indications that they have been doing this, at least with respect to the

Zetas and La Familia Michoacana. The difficulty is that the violence is so complex that it is really hard for the government to identify the perpetuators of any particular violence, and who actually is the most violent group and who is the second-most violent group.

Moreover, because both the effectiveness of capture and prosecution is so minimal, the deterrence capacity of law enforcement in Mexico is still extremely low. And so this strategy that has worked well elsewhere I think will struggle in Mexico. That said, I still believe it's worthwhile trying it.

The second equally difficult policy to undertake is for Mexico to move away from focusing on the heads of the cartels and focus far more on capturing the middle level, in the way that we do law enforcement in the United States or that Britain does law enforcement. Build cases for a year or two and then try to bring down as much of the middle level, several hundred people at the same time.

The group will still regenerate, but it will be far weaker and some of the propensities toward violence will be lessened if there is the strategy. The problem is that Mexico's law enforcement needs to develop the trust in itself and the capacity to sit on intelligence for a very long period. Right now, the tendency because of fear of (inaudible) is to strike as soon as any intel, especially valuable intelligence, comes in.

Even in places where there is the narco piece, which in my view is what is going on in Tijuana, the law enforcement should take advantage of it and really focus deeply on institutional reform. One of the things that I fear in Tijuana is that lots of the focus on municipal reform is whether or not -- reform of municipal police is really not being carried forward. That the sense is that Tijuana is bogged down in the success. We have succeeded in Tijuana, and there is really little planning for expanding the security zone beyond a city center and for continuing with the institutional reform. So even if there is a reduction in violence, not as a result of policy, as a result of a piece that nonetheless should generate very strong focus on deeper institutional reform because it's a permissive environment.

And finally, I would encourage expanding the socioeconomic programs beyond Ciudad Juarez with a very careful design. Perhaps smarter design than in Juarez. Monterey also has its own program that this model (inaudible), I would say caveat emptor. The Medellin miracle is over and there are lots of wrong lessons drawn from Medellin. I can get into Q and A. So we would be very careful what you attribute success to, and when you eye your causality.

But nonetheless, focusing on expanding the socioeconomic programs as a mechanism of far more strongly anchoring the trust and

allegiance of Mexican people to the state that goes beyond immediate drug trafficking-related criminality.

None of these will work, at the end of the day, if there is not a broader deepening of rule of law in Mexico. If the justice system does not become far more efficacious. If prosecution success doesn't move from 1 percent to much higher levels. And this is precisely what John will be talking about.

MR. PICCONE: Great. Thank you, Vanda, for setting the scene and identifying some of the real challenges and, you know, it's interesting to see that there have been some successes, progress, although your phrasing of peace really struck in my mind that maybe this is just quiet cease fire at the moment.

John, tell us about justice and police reform in Mexico.

MR. BAILEY: Sure. Glad to be here, glad to participate. And I commend Vanda's papers to you. She goes to places I will not go, talks to people I actively avoid, and produces work that as our moderator suggests, combines very good political economy and very good knowledge of breadth of security issues with good ground truth. She really knows Mexico well. And so I learn a lot from reading these and I think they're very valuable, and I commend them to you.

Let me say some general things about the context and then

focus on three -- I'm going to talk about military, police, and justice. The point I want to emphasize is, Mexico -- what really sets Mexico aside is the problem of organized crime and the violence of the organized crime. So if you look at victimization sort of in these types of things, Mexico is sort of in the middle. I mean, you have outliers on both sides. But it's appropriate that we look at this issue of organized crime, and we really don't understand very well the relationship between organized crime and ordinary crime. But the Mexican case is characterized by these highly violent, mobile, well-armed groups that can actually challenge the state. And so it's appropriate that we study that.

What interests me is what kind of Mexico will emerge from this violence 5, 10, 15 years down the road because it will be a different country. And so I'm not sure where we look exactly. Maybe Russia, maybe Colombia, maybe other countries. And I'm sure Vanda's next set of projects will include that issue as well. But there will be a different kind of country that emerges from this, and right now we're rally, I think, focused on the violence.

Also, about organized crime. I always challenge an audience if you, afterwards, can take me aside and show me what an organized crime group actually looks like I would really thank you very much. Because we're managing lots of concepts out there and we don't

really have a lot of empirical data to go with it.

Strategy. I want -- the point to make, I would emphasize, is Mexico has gone through two very important changes. One is the change in the economy in the 1980s and '90s. It's actually tectonic. And then the opening of its political system. And so historically it's not unusual to find social banditry that goes along with these kinds of changes. And so if you put it into that context, there really is a very broad set of changes going on and we're dealing with some of -- I think some of the symptoms of that change.

Strategy. The Mexican government does have a strategy to deal with these issues of crime -- common crime, organized crime. And it's a strategy more in a sense of a list of goals that it would like to accomplish than the part about how to actually go about getting from where they are now to achieving the goals.

The strategy against organized crime I think came into pretty clear focus by the middle of 2008. It's very articulated, it was very clear. The two problems were the Mexican government couldn't explain it very well to its own public, and that was an issue because the public didn't quite know what the strategy was all about. Or at least the goals were about.

And the second is, it's really about implementation and

getting some kind of a way to get the various pieces to work together and get a sequence of the pieces to operate. And the frustration is there needs to be a reform Caldillo who can actually step out and make the different pieces cooperate. And that officer, that person hasn't really taken place yet.

Constraints. There is a very strong political opposition to the government's strategy. And if you look at the surveys, the focus is on the violence. And the perception that the Calderon government has really focused on a set of strategies that's really exacerbating the violence rather than dealing with it. So if we look at change over time, public opinion suggests that Calderon is running into problems of public support.

Second, partisan conflict. In D.C., I don't have to tell you -- I mean, we have our government that's going to be shut down again. We understand partisan conflict in this town. In Mexico, the security issue is highly politicized and there is not this agreement amongst the parties on how to put together a program and then support it.

And the reason that's so terribly important is it's a complicated federal system. You have 32 states and 2,400 counties and 4 or 5 political parties. And so to get coordination at these different levels is very hard to do. Plus, the very strong suspicion that Calderon used the crime issue for partisan advantage. That it's not really an issue that was a

genuine one, but that he won his election by less than 1 percent. He needed a legitimization issue. So it shows the anti-crime issue to do it. And then he pushed that forward. So it created skepticism in a number of quarters that this is really a real issue.

So federalism, partisan conflict, complexity, bureaucratic conflict. We understand that in this town as well, but getting the various pipes to cooperate amongst themselves, getting this inter-agency -- it's in Vanda's papers in several places. Police will talk with the Army, Army won't talk with anybody. Getting the social services agencies to coordinate with those other agencies doesn't work very well at all.

Enormous distrust in the police justice system. Another thing that sets Mexico apart, if you look at the 16 or 18 countries and compare them, confidence in police is amongst the lowest in the region. The only place it's lower is Argentina, which I still don't quite understand. But the Mexican police suffers under this notion of distrust. And widespread corruption. So, the expectation that the motives of those people who are taking place is of corruption.

So let me comment on the police justice and military reforms. People who deal with institutional reform know the really tough nuts. Police, that's really a tough nut to reform. And the justice system. Military -- change in the military is a question of months and years.

Change in the police and judiciary is a question of decades. And so they're operating on different calendars. And there are efforts to get these to move forward, but one shouldn't expect to see a justice system in a federal country transform from one year to the next. The Mexicans have put 2016 as the goal, and the likelihood of reaching that is really very remote.

Police reform, you read your posts this week. We had what, 17 or 18 police departments in the United States that are under active control of the Justice Department. So police reform is an ongoing, it's not something you accomplish and you walk away from. It's something that you begin to move toward and do later on.

What's really important is, as Vanda was suggesting, stand up the -- when the police stand up the military can stand down. And yet that's kind of an awkward relationship. The military is on very thin legal grounds to operate. And so one of its priorities has been to get a framework law within which it can operate legally. And one of Vanda's papers, she points out the military can't make arrests, for example. They can't conduct intelligence in the same way that the police can conduct it because they're legally not allowed to do that.

And Calderon's efforts to get a reform through the Congress have been blocked. So the military is out there -- you can imagine if

you're a military officer and you're out there, you know 10 years from now there's going to be an investigation of what you did. And if there's no legal standing for what you did, the tendency is to be risk-averse. Find some way to minimize your exposure and just survive and get on with your career.

So let me say some things about military reform. My point is, it's in an awkward position. It's trying to make its adjustments but it doesn't have full legal standing and so it can't do all that much. So given that, it has actually done a number of important things. The Army, for example, has done a number of changes in how it plans and how it's decentralized its operations. That is very important because it's been a highly centralized agency.

The second is, they changed their training. They put more emphasis on small unit operations. Operations that are appropriate for an urban setting. The Mexican Army has largely been a rural army, and now it's being called in to do things in the urban area.

Creation of community liaison or officers. This is very important because the Mexican Army, it's culture, and its tradition has been to be apart from society. I saw for the first time in my career an active duty Army general in a sensitive debate in a university this May. Never does the Army come out and talk, and for the first time the Army is

beginning to present itself. The Navy has been more accessible, but the problem of the institution is it hasn't related well with its own society.

Procurement of equipment. The Army has been moving away from heavier-type equipment toward lighter-type equipment. And moving toward greater mobility and a greater effectiveness to operate in urban areas.

Navy may be even more important changes going on in the Navy. They've done a number of adjustments to get better equipment that can be more effective in tracking. For example, maritime sorts of things. And so they've gotten lighter vehicles, they've gotten faster vessels, and they've gone more toward helicopters and air capabilities. That's important because of trying to control the two areas of the routes both in the Pacific and in the Caribbean.

Very important are changes in the Marine Corps, and we can come back and talk about that later on if it interests you. But what the Navy is trying to do is create a stronger Marine Corps, and one that's more agile, one that can move more effectively. And that force has been important, as Vanda was suggesting, in this taking down of top level drug traffickers. And the governments relied more on the Marines in that sense than it has on the Army.

Police reform. This is Calderon's top priority. You can find

him quoted everywhere, saying when I leave office what I really want to leave behind is a very effective police. And the person in charge of that is the Secretary of Public Security, Genaro Garcia Luna. And he's worked very hard to increase the size. Can you imagine increasing the size of the federal police from 5,000 officers to 35,000 officers in a question of 6 years? That is quite an undertaking, and it's going to create a number of difficulties that anybody who's ever increased the size of a police can really imagine quite a lot.

Calderon's -- or I should say, Garcia Luna's concept was unify the federal police forces. And the two main ones are the preventive police -- these are the uniformed police, they're by custom not allowed to make arrests under certain circumstances -- and the investigative police. And Garcia Luna of course wanted -- or not of course, but he wanted to combine those, plus the other types of police forces, plus the other types of police forces at the federal level, into one police. Then he wanted to combine the state polices into 32 combined state polices, and he wanted to put this all in one big integrated system. But he ran into problems with the Congress and he wasn't able to carry that forward. And so Garcia Luna has been focusing primarily on his preventive police, the Policia Federale. And that's quote a work in progress. I don't have good appraisals of how well that's going, but that's critically important in a few

years from now, that that can be done.

Justice reform. Decades. There's a good movie out there I commend to you, *Presunto Cupable*. It gives you a good vision of how the justice system doesn't work. The impunity rates, if you take from victimization to the actual processing, is about 98 percent. So as one of my friends tells me, the question is why there's so much crime in Mexico, it's why there's so little crime in Mexico because there ought to be more that's going on.

Two -- it's very complicated judicial reform going forward. Supreme Court Justice called it a perfect storm of four or five or six types of justice reform that are going forward at the same time.

Two tensions I'll give you as an example. One tension is this key office called the Ministerio Publico, the prosecuting attorney. It's terribly important. The prosecuting attorneys in Mexico tend to be passive and risk averse. To make an adjustment to an accusatorial-type system, the prosecuting attorneys have to be very, very effective. And to make this effective down the road, it's going to be difficult.

Second is, the relationship between the justice system and the military. If the military is going to continue to play an effective role in law enforcement, the military needs to have a very good working relationship with the justice system. And to date, that hasn't really taken

place.

So let me leave it there. Thank you.

MR. PICCONE: Okay, great. Thanks, John. That you know, now what we'd like to do, get a sense of what's happening at some of the local level, the national level. And look North and think about what's happening in the United States, what's going on with U.S.-Mexico cooperation. And for that, turn to Andrew.

MR. SELEE: Thank you, Ted.

First, before I talk about the U.S.-Mexico side, I do want to talk about four very specific things about the U.S.-Mexico relationship. I want to commend Vanda for an excellent publication. I think one of the things this publication does and is really important is to talk about the fact that this is not Mexico -- what Mexico is going through is not uniform. There is not a single thing happening in Michoacan which is the same as Juarez which is the same as Tamualipas, which is the same as Vera Cruz. There are different sub-systems going on here.

We tend to think on this side when we look at this -- and this is -- I know a lot of you in the audience, this is a very educated audience who knows a lot about Mexico. But I mean, we tend to from the United States look and see Mexico organized crime, here's a couple groups beating up on each other. There's sort of a common problem here. And if

we go take out the leaders, you know, we'll take care of it. In fact, there are lots of sub-systems going on.

And as Vanda mentioned, as John mentioned, I mean one of the things that has changed over time is we're probably seeing a more decentralized sort of violence. Five or six years ago, we probably were talking about six or seven big groups with a certain degree of cohesion. Although as John says, what exactly is an organized crime group? I mean, these are largely networks, right? With a core somewhere -- some of them more integrated than others, some of them do -- some of them are more hierarchical, some of them are much more networked than others. But there were groups that were more clearly identifiable.

What we're seeing now is a rise in other kinds of violence. And we often don't have organized crime violence, but we're seeing lots of extortion, lots of kidnapping, and lots of kidnapping over local drug distribution in places like Acapulco, in Juarez and Tijuana. We're seeing other forms of violence taking place, sometimes by people who are involved in the cartels and the organized crime groups. Sometimes they are the people who are the killers for the organized crime groups or the distributors, or whatever -- the mules who freelance on the side in the name of the cartel, with or without official permission. But certainly allowed to do it, right? I mean, may or may not be official strategy of the

cartel, but they're allowed to do it. Sometimes you see people taking advantage of the general climate of impunity to get into extortion rackets and other things.

And so we keep talking about organized crime as though these are, you know, six or seven big groups. But in fact, there's lots of moving parts in this right now. And there really are lots of things happening different places. And there's a recent (inaudible) poll that asked people what are they most concerned about? Are they concerned about drug trafficking groups or are they concerned about other sorts of crime? Overwhelmingly I think it's three to one, concerned about other sorts of crime. The crime that most affects people is not the killing between cartels over the drug trafficking routes. It doesn't matter -- it doesn't mean it's not important, because that is the impunity that they have, the fact that that's going on and the way that stretches public resources and corrupts public authorities has then allowed a sense of impunity and a reality of impunity in many places that allowed other groups to operate and people lower down the food chain to operate in other sorts of rackets.

But clearly what affects people day to day is a public security question. It's not merely the national security question that President Calderon laid out early on of going after these organized crime groups.

It's actually going after public security. How do you make people's lives more secure? And focusing, as Vanda points out, on violence.

So with that, let me say that the U.S. is a critical player in what's going on in Mexico. To a large extent if we could ever get a handle on our drug problems -- and primarily cocaine, heroin, and meth. We haven't figured out what to do with marijuana in this country. Mexico would be much better off, Central America would be much better off, as Kevin will talk about, the Caribbean would be much better off -- much of the world would be better off.

That is, however, a long-term gambit. I'll come back to it. But it's a long-term gambit. Almost everything that the U.S. can do is either a long-term but very important question or it's really a supporting role to Mexico. I mean, largely the short-term things have to be done by Mexico.

That doesn't mean we're not responsible for what's happening in Mexico, because it is our consumption that helped give rise to this. They are U.S. weapons, and U.S. consumers' money going into Mexico. But in terms of what we can do practically on the ground to change the context, much of what has to be done in Mexico and the U.S. is a supportive role.

The move, to talk about shared responsibility, I think has

been extremely useful in this sense. At least recognizing that this is a -- we're talking about two-way traffic. We're talking about narcotics that go North, we're talking about U.S. money that goes South, and arms that go South. But solving it is more complex.

One of the great challenges in the U.S.-Mexico relationship going forward -- and we've seen this continuously -- is that Mexico, with good reason, is concerned of sovereignty in dealing with the United States. Does not want the U.S. to get too far in the door. Would like U.S. assistance, U.S. aid, U.S. co-responsibility, actions on the U.S. side of the border, but also does not necessarily want to see some of the engagement that happened in Columbia, for example.

On the other hand, the richness and the advantage that is very different from Columbia and very different form other places in the world is we have an enormous engagement among people at all levels of the federal, state, and local governments and in civil society. And so there's lots of things that go on between Mexico and the U.S. that go on between judges in U.S. and judges in Mexico, prosecutors in the U.S. and prosecutors in Mexico. Either police in the U.S. and police in Mexico, either training each other or working together on concrete cases, which would be hard to imagine if we weren't neighbors.

And I think we shouldn't underappreciated this. I mean,

there is kind of a federal-to-federal strategy, but there's actually lots of things happening. Eric Olsen and I were in Tijuana with David Shirk and a few other people a year or so ago meeting with police officers in Southern California deeply engaged with their counterparts in Mexico outside of formal channels. And this is something you see in different ways. Prosecutors at the border talk to each other. The kind of informal cooperation that goes on because, in fact, we are neighbors.

And so when we talk about the macro strategy between the U.S. and Mexico, we shouldn't forget that lots of the most important things happening are really happening at the state and local level, and even outside of government. And it's very important.

But there are four things that we should be thinking of in terms of a federal-to-federal strategy. The first is -- and here I agree with John and Vanda that the most important thing in Mexico is the public security strategy. Is how do you reform police, how do you reform prosecutors, how do you reform courts? Police have gotten somewhat better. I mean, it is -- we can talk about this more in Q and A, and John knows much more about this -- growing pains of increasing the federal police by this much. The state and local police are, you know, incremental gains. But there is some progress.

Prosecutors and the courts remain -- the courts there's even

actually some progress going on, particularly in some states. Prosecutors remain -- I mean, (inaudible) remains something of a black box. Remains something of an area that has not had needed investment, attention. An area -- and so we're seeing lots of people arrested and not necessarily with any consequences for their arrests down the road. And this is actually something that begins to worry people. It's what generates this sense of impunity.

I would say actually one of the things on Tijuana that is worth rescuing -- and Vanda talks about this a little bit. I think part of why you have a deal between the two cartels -- and I may be being over optimistic. So count this as an over-optimistic statement for which I have no proof. But in Tijuana what you did see is working with people in Southern California. The U.S. Attorney's Office, intelligence officials on the U.S. side, DEA, FBI, and others. And federal, state, and local police. You actually had a coming together of a lot of people working together much better.

The military actually worked much more closely with the police, as Vanda talks about, and worked much more closely with prosecutors. So, unlike the Army going out as they do most places and kind of acting alone and then, you know, arresting someone but there's no case built against them. They would actually bring people from the

prosecutor's office with them and try and build a case.

What they were able to do, in part, is actually dismantle not only go after the Capos, but they actually went after the kidnapping rings, they went after the immigrant smuggling rings that were particularly violent. They dismantled a lot of those. It also helped there were two cartels. There was really a break off in the cartel. We're fighting -- and so we're willing to give information to each other to the authorities about the other side. And so they use that a lot.

But they actually went after the top and the intermediate and the lower structures of the two organizations that were fighting. And there was some synergy between police, military, and prosecutors.

Now, I don't want to overstate this. There were also, as Human Rights Watch has pointed out, a lot of human rights abuses committed in this. Do not want to hold this out as a perfect model. But it does show some things of what might be possible, both in terms of collaboration and on the Mexican side. But U.S. authorities were quite important. Cell phone intercepts on the U.S. side were quite important in this.

Second thing. So I think one thing is, using the Amerita Initiative and using our direct institution-institution relationships to invest in public security. And finding who are the change-makers within -- again,

the U.S. is not going to be a powerful agent in police reform in Mexico. That has to be done by Mexicans in Mexico. It's not going to be a powerful agent of change in prosecutors or in the courts. But finding those change agents and supporting them in whatever way possible. And that's some of what I think the Amerita Initiative has been useful, is actually beginning to find some of those people there at a state as well as a federal level.

Secondly, how do you invest in people who are change agents in society? And this is the Juarez question that Vanda raised. I mean, how do you find ways that help -- and even more perhaps than thinking about how do you fund 100 NGOs in Juarez. The question is, how do you find ways that communities can be resilient? How do you invest in the people and how do you protect the people that are trying to stand up to violence? How do you protect journalists? How do you protect civic leaders? How do you protect public authorities that are doing the right thing? How do you create early warning systems? USAID is starting to do some of this. And hopefully it's the kind of thing that can be expanded.

How do you create early warning systems and ways of getting people temporarily out of harm's way if they are showing courage? You know, how do you give people -- how do you protect journalists and

civic leaders and public authorities that are trying to do the right thing so they know they have a slightly higher bar where they say, I'm willing to stand up because I know that if, you know, things get really bad someone is going to whisk me out of here, right? And someone -- the U.S. government and the Mexican government are going to give me some intelligence that they find out that they may be coming after me. We've done some of this in the past. But being more systematic about it and letting those people know also that we've got their back is key in all this. Is key to community resilience. How do you invest in those change-makers in society, and how do you do it in a very strategic way?

Third. I completely agree with Vanda on how do you strike at the most violent groups first? Again, not easy to do. This is something particularly because the violence is coming from different sides and it's often hard to figure out who has ordered what. The casino fire in Monterrey, an incredibly tragic act. Who ordered that, right? I mean, and do we have the intelligence to know, was this a strategy of the Zetas themselves? Is it a strategy of a cell of the Zetas? What level was this handled?

Who is the most violent group? I mean, the 30-some bodies that show up in Vera Cruz seem to be the Gulf Cartel. Those are usually the good guys in our telling of the story, right? Against the Zetas. So there's

no really good guys in this story, right? So even if we talk about striking the most violent, it's making some choices about who that is.

But the larger question is, how do you mark behaviors? How do you begin to say, there are certain things that aren't tolerated. You kill a journalist, you kill a child, you kill 15 teenagers. These are things that deserve a different kind of response from the Mexican government, and they deserve a different kind of response from U.S. law enforcement.

Our strategies tend to be -- simply because of the way we gather information -- tend to be going after the high-value targets. It may turn out to be that not all high-value targets matter as much. That you want to go after the high value targets and even the intermediate targets of those who are involved in the worst activities.

And to give you a very concrete example where we did this, the killing of the ICE agent, tragic event. Hell and fury rained down on that cell of the Zetas that did this. Now we don't know for sure if they got everyone. I mean, again, we'll never know, perhaps. But we really respond to this. This is how we do it in the United States, right? You kill a law enforcement officer, there's a good change that they are going to go after you with everything they've got. This same kind of reaction should be happening when journalists are killed, when children are killed, when teenagers are killed, when mayors are killed.

And finally -- and this is the last point. Is thinking about what we can do on -- actually, two more points. One is what we did -- well, final point is actually what do we do on this side of the border? One is -- and nothing on this side of the border is going to be a game-changer for Mexico. If we could stop half the arms coming across, it's not going to be a game-changer. If we could stop, you know, double the amount of money that we're capturing it's not going to be a game-changer. But it's still important to do. It's incredibly important to do. Because it's also one of the things we can do.

We don't have a lead in the U.S. government on this. Particularly when you look at money laundering. We actually have not had an effective coordinated strategy across agencies. We've done very well on counter-terrorism. Again, I'm not sure that's been the greatest blow that we've struck against terrorist groups, either. But it has been an important element of what we've done in counterterrorism. We've not done the same thing in terms of money laundering. What we've ended up doing is things like Southbound inspections that are largely ineffective at the border.

Going after finding the safe houses where money is gathered. How the arms trail is done. And by the way, Fast and Furious was actually on to something. Controversial statement, but the folks in

Fast and the Furious were actually trying to do the right thing. They did it terribly. They went from ATF is out there, my sympathies. I think the ATF was trying to do the right thing with the incapacity to actually do it right.

But beginning to come up with a diagram of how these things work. Beginning to have the same type of intelligence on these. How do the Zetas operate when they cross the border in the United States? We tend to treat them as a law enforcement issue once they cross into the U.S. We don't have the same kind of mapping we do in Mexico.

And very final point of the final point is, on consumption. We're not going to be able to do much in the short-term, but in the long-term, this is the big issue, right? Consumption -- most people -- we're talking about a business that's largely driven by cocaine. If we believe the RAND Report, which is actually the best thing we got, about half of the money going into the Mexican organizations are cocaine -- is from cocaine. About 25 to 30 percent is heroin and meth.

Beginning to think how we go after the heavy users of those drugs. Not in a punitive way. In fact, most of these folks are already in the criminal justice system. But in an effective way, since a lot of these people are already in the criminal justice system. And Mark Kleinamn's work is very good on this. How do we begin to look at ways of getting --

creating incentives for people who are in the criminal justice system to stay off drugs? Because if we can go after the heavy users, there's a good change that we could actually lower the market over time. We're not going to get rid of it, but we could lower the market significantly.

MR. PICCONE: Great, thank you very much, Andrew.

We're covering a lot of ground. Now let's move South. By the way, there are seats up here for those that are in the back and would like to find a seat. There are four or five down here.

Kevin, tell us about how all this is affecting Central America.

MR. CASAS-ZAMORA: Yes. Well thank you very much, and thank you all for being here.

And I want to particularly thank Vanda for kindly asking me to be here. And I want to say also that her work on both Mexico and Columbia is really a source of pride for the Latin American Initiative.

Well, the question of whether what's happening in Mexico is affecting Central America is a complex one. But the scale of the problem in Central America suggests that it is affecting the region. You just have to look at the recent evolution of crime figures in Central America.

Over the past five years, crime figures have gone up -- have gone through the roof throughout Central America. They seem to have stabilized over the past year or so. Not in Honduras, for instance, where

they are really out of control. But the problem is that they seem to have stabilized at a staggering level.

Just to give you one factoid that I came across that really made my jaw fall to the floor, last year Guatemala and Honduras and probably El Salvador -- I would have to check it out in the case of El Salvador. Each of them had more homicides in absolute numbers than the 27 countries of the European Union combined. So, really the scale of the problem is overwhelming.

Not all of this is related to drug trafficking. And this is important to bear in mind. And I want to emphasize something that Andrew alluded to in the case of Mexico. That in the case of Central America, it's also the case that the story is not the same in every country. I mean, when you look at the security problems in El Salvador, the story is very different from the story in Guatemala or -- not to speak of Nicaragua or Costa Rica or Panama.

But a lot of this is related to drug trafficking. Not all of it, but a lot of what's happening is related to drug trafficking. And just to give you a number, about 45 percent of murders in Guatemala are, according to the national police, directly related to drug trafficking.

And it all has to do with the fact that the role that Central America is playing in drug trafficking has become much more prominent. I

mean, about one-fourth of cocaine in 2006 was going through Central America. The figure is now closer to 80 percent, according to regular trackings and all that.

And that's not necessarily because countries in the region are not making an effort. I mean, quite a few of the countries in the region are making a significant effort. I mean, cocaine seizures in Central America have gone up six fold over the past decade. In actual fact, Central America over the past three or four years has seized three times as much cocaine as Mexico. So, it's not for lack of trying in many cases.

But you have to say, you know, that what's happening in Mexico is surely having an effect. And particularly in the case of Guatemala, which I'm going to talk a little bit about.

And the thing to bear in mind here is that in many different ways, Central American countries are much more vulnerable than Mexico. You know, starting with size. I mean, they just don't have the scale to confront the tsunami of drug trafficking that they've been served. So, the vulnerabilities are in many ways much more considerable than in Mexico.

And the worst case of the lot is Guatemala. Let me start by saying that whichever way you look at it, with the possible exception of Haiti, no country in the Western Hemisphere has more serious problems to enforce the rule of law than Guatemala.

Violence rates are going up, though generally speaking the homicide rate went down last year. But perhaps this is not simply -- as in the case of Mexico, is not simply a quantitative issue. It's also a qualitative issue. What you're witnessing in Guatemala in the past year is the proliferation of very high-profile murders that give a sense that the state has no way to bring violence under control, really. And the worst cases arguably are the slaying of this really famous and beloved Argentine singer, Facundo Cabral. I'm sure you have heard about this, which was really harrowing in many ways. Because it carried a very symbolic -- you know a great symbolic weight. I mean, this man was a beloved peace activist. And to be murdered, you know, in broad daylight and the way he was truly terrifying and sad.

And also and probably worse, I mean the massacre of 27 peasants in Peten in the North of Guatemala back in May. Which by all accounts -- and again, you know, it goes back to something that Andrew mentioned before. Presumably because we don't know was carried out by the Zetas. But nobody knows.

So you get the sense that the state is not in a position to bring violence under control. And some estimates -- and recent estimates -- tell you that some were between a third and 40 percent of the Guatemalan territory is under effective control of drug trafficking

organizations. So the problem of territorial control is of the essence here.

And back in June I was in Guatemala, I had a series of conversations with people, including you know, a few that are close to me that work at the UN-sponsored commission against impunity in Guatemala. And the stories they tell are just mind-boggling. I mean, are truly terrifying. I mean, the level of territorial control that drug trafficking organizations have managed to establish in a place like Peten is just terrible. I mean, there are roadblocks all over the place. You basically go in and out of Peten according to the whim of the local drug trafficker. It's really a very serious issue.

And what is taking place in Guatemala -- to cut short a long story, you know, very short -- is a series of turf wars between local crime families. The Sinaloa Cartel and the Zetas. And the role of the Zetas is particularly crucial. I mean, since 2008 the presence of the Zetas in Guatemala has disrupted what used to be a relatively stable equilibrium between local families.

And in essence, what happened was that one of the families tried to disrupt this equilibrium, brought in the Zetas, and they took over. And now they don't know how to get rid of the Zetas.

But this is -- it is important to bear in mind that the presence of Mexican drug traffic organizations is not something new in Guatemala.

And again, just to give you a factoid. Sinaloa in particular has been around for a long time. Just to give you a factoid. When the Capo Guzman, the presumed head of the Sinaloa Cartel, was -- I don't know if it was the first time, but when he was arrested I think it was in 2001. You know, he was thrown into jail and then he escaped in the laundry cart. I don't know what the story was. But he spent some time in jail.

When he was arrested he was arrested in Guatemala. And that was a decade ago. So, the presence of Mexican cartels in Guatemala is not something new. It's that it has increased in intensity in a very visible way.

And why is it that this is happening in Guatemala? The reasons are many. I mean, some of the reasons are purely geographical. The place that Guatemala -- you know, the place where Guatemala is is surely a strategic -- but it's also the country's forbidding nature. I mean half of the country -- the Northern part of the country is as thick a rainforest as you're likely to find anywhere. I mean, that's the (inaudible), which also happens to share, you know, 500 miles of border with Mexico which is basically no-man's land.

And crucially, Guatemala is an exceedingly weak state where crime syndicates can operate with almost total impunity. And there are many signs of weakness, but a particularly crucial one is the fact that

Guatemala collects 10 percent of GDP in taxes. What that means in practice is a state that doesn't go beyond the cities. So, the structural weakness of the state -- not just of law enforcement that is a major concern, but in general is quite serious and is surely one of the drivers of the presence of the cartels there.

And then you have very poor law enforcement institutions that I would posit that are more prone to capture by crime syndicates than anywhere else in Latin America, including Colombia and Mexico.

There's a long tradition of impunity in Guatemala, which nearly four decades of civil war only made worse. Since 2008 the country has had 5 Ministers of the Interior, 4 chief police officers. And I don't want to belittle what someone like Helen Mack, who is an extraordinarily courageous person, is trying to do as head of the Police Reform Commission. But the odds against what she's trying to do are really overwhelming.

I'm running short of time, so I'm just going to jump to what needs to be done from my perspective. One thing that you have to say from the start -- and this is something that has been mentioned in -- you know, for the case of Maxi Caswell -- is that for the most part dealing with the crime syndrome in Central America in general but particularly in Guatemala is the responsibility of Central America. I mean, what the U.S.

can do can matter on the margins, but the drivers of this can only be tackled by the Central Americans themselves. I mean, things like the lack of opportunities for the youth, things like the terrible weakness of law enforcement institutions can only be solved by the Central Americans themselves.

And the signs are not entirely dispiriting. I mean, just to give you an example, I mentioned the tax issue which is paramount in the case of Guatemala. Well, you're seeing in quite a few of the countries in the region -- in El Salvador, in Honduras, in Costa Rica -- and therefore to increase, you know, the tax burden particularly on the wealthy in order to support law enforcement polices, which is an encouraging sign.

From the perspective of Washington, I think it would be a very good idea to keep on supporting the Central American Regional Security Initiative. I'm not going to go into details of it, but I do think it's a well-designed initiative.

Nobody knows for sure, by the way, what the amount of money that the U.S. is putting into CARSI at this point. Because it was supposed to be $100 million this year, but then President Obama went to El Salvador and promised 200. And then Hilary Clinton went to Guatemala and promised 300. But we never knew whether those 300 included some of the money that hadn't been dispersed from the previous

commitments. Nobody knows.

It would be a good idea to increase the money. And you know, it would also be a good idea to prevent that money from spreading into a myriad of small projects. You know, by all means pick a few priorities that can have a catalytic effect on the effectiveness and on the public image of law enforcement institutions. And we can go into that in the Q and A.

Last but not least and this is my final point. And I suspect it is going to be a controversial one. I mean, Guatemala is a tough nut to crack. By all means in the case of Guatemala, support the Commission Against Impunity whose mandate runs until 2013. It has many problems and shortcomings and so on and so forth, but at -- you know, the bottom line is that the CICIG is a vetted unit in a country where penetration of law enforcement institutions by crime syndicates is rampant. And to be entirely honest, I -- my impression is that Guatemalan's institutions won't be able to cope. They won't be able to prevent the country form becoming a state.

What this means in practice is that Guatemala, in my view, needs not merely the assistance. But in some ways, even the tutelage of the international community. It really needs in an ideal world to have the mandate of some kind of UN-sanctioned body expanded to cover police

and judicial functions. That is, the only way to rebuild law enforcement wholesale. And this is, I'm afraid, about ceding potential attributes of sovereignty.

So the real choice that the next president will face, in my view, is either you relinquish vital prerogatives of the state to the international community in order to save Guatemala or you relinquish more territory to criminal gangs and doom the country to implosion. This is not pretty, but quite frankly it is no use pretending that the current institutions are up to the task. It is time that we start calling things for what they are and stop pretending that Guatemala is on the road to any kind of recovery.

Thank you.

MR. PICCONE: Okay. Thanks, Kevin. That was very interesting way to end this discussion because we talked about Mexico's spillover effects in Guatemala. I wonder if it's somewhat the reverse. Can you solve the problem in Mexico without also solving this challenge in Guatemala? They certainly seem to be feeding off one another.

We don't have a whole lot of time, about 15, 20 minutes. Please identify yourself. I'll take two or three questions. I'm going to just throw out a topic, maybe when we come back, for you guys to consider. Which is the 2012 electoral cycle. What scenarios do you imagine playing itself out? And how would it affect particularly the U.S.-Mexico

cooperation front?

But let's go to the audience. I have a hand here in the middle and then we'll come forward here.

MS. MURRAY-WATTS: Diana Murry-Watts from Georgetown University. Thank you all for your presentations. This is a double question.

To what extent do you believe that there is a relationship between the informal economy and the youth unemployment in Mexico and organized crime? And if there is, what should the Mexican policy response be to this situation?

Thank you.

MR. PICCONE: Here in the front. We have a question here in the front.

MS. SHERIDAN: Thank you. Mary Beth Sheridan from *The Washington Post*. Thanks so much.

I wanted to just follow up a little more on a point that Andrew raised. Which is, given the enormous presence of Mexican cartels and the U.S. and presumably the great profits they make from their operations here. It's always striking, you hear so little about what's -- that this never seems to be included in the strategy of how to tackle these cartels.

So I'm just curious, is there a sort of U.S. strategy to, you

know, weaken these cartels here as part of also helping Mexico there? Or does that just not exist? I mean, is it handled at a local level? I'm just curious because you never really hear about that piece. Thank you.

MR. PICCONE: That's a good question. And right here in the front, this gentleman in the second row. This gentleman in the second row here.

MR. NEWMAN: Thank you. Gray Newman from Morgan Stanley.

And actually related perhaps to your question. We've got a change in the administration in Mexico next year. And just curious, have you seen cases in other countries where during the middle of a difficult conflict like this you've had a change in the administration? Do you have a case where violence actually picks up as various agents are trying to send a warning shot to the next administration? And two, when you do have a change in administration, do we get a lull in terms of the effectiveness of response or other sort of change in strategy? Thank you.

MR. PICCONE: Alright, why don't we start with Vanda.

MS. FELBAB-BROWN: Thank you. So Diana, on your questions about youth unemployment. You know, I would broaden it and say there is definite relationship between unemployment and formality and illegality. And for many -- for a long time, many Mexicans believed that

they way to escape poverty was to either to illegally cross into the United States or to participate in some illegal economy.

Now informal economies are not necessarily illegal, and it's a major employment sector for Mexico. About 40 percent of Mexico's economy is informal, much to the detriment of the state, and arguably, optimal from the perspective of the population.

Hence, focusing on both broad macro-level socioeconomic changes encouraging education so that young people have better employment opportunities, as well as focusing on specific programs that design socioeconomic interventions with the focus on anti-crime efforts -- anti-crime outcomes -- are very important. Both of these are difficult to undertake. They require a lot of political capital on the part of the presidency, very difficult in today's Mexico with the devolution of power with the absence of the imperial presidency. Not easy under any circumstances. It requires the political and economic elite to give up a lot of their power, including greater tax burden at the macro level.

But to the extent that these policies are absent from the public security strategies, there will be limits to what law enforcement can do. Rounding up the sicarios or rounding up lower-level operatives can be an infinite process. There are good reasons to do it, including discouraging impunity. But if your policy is draining the recruits there is an

infinite supply of the recruits in Mexico. So that cannot be ignored.

But another point on this I would make is to say that I think a lot of thinking needs to go into how to insulate, especially the informal economy from takeover by the criminal groups. And we are seeing very systematic push into informality. Franchising who can operate on the (inaudible). It's deeply disturbing of the community, further thrusting the community into the hands of non-state entities.

And the political capital the criminal groups would get, it's enormous. You're talking about 40 percent of the economy, vast employment levels. So developing mechanisms have to insulate, especially the informal economies, if not other illegal ones, from oversight control by criminal groups. The thing is, neglecting -- difficult but neglected aspect of our thinking in the U.S., as well as in Mexico.

Mary Beth's question about anti-money laundering. I would make several points. I think Andrew was just completely on mark with what he said about anti-money laundering. It's important symbolically, it's something that we can do. However, the reality is that out of all the strategies that you have for focusing on crime it is often the least effective one.

The normal rates of seizures are somewhere between 2 and 4 percent. If you put a lot of assets into anti-money laundering, maybe we

can boost it as much as 10 percent. Nothing to really paralyze or even severely burden criminal groups.

Perhaps more important in my view than anti-money laundering is what we do in terms of law enforcement in the U.S. And there have been several prominent operations that have been accelerated several years back -- that has been several since accelerated.

And what we need to get is to help the Mexicans get to the same way that when we round up 500 or 300 members of Sinaloa Cartel, there is no effect on the market. There is no huge spike in violence and (inaudible) or Chicago, because the drug trafficking groups understand that power lies with law enforcement. That you do not go up and shoot the police precinct. That you do not go and try to assassinate or threaten the judge.

So what, in fact, I think we can be helping the Mexicans is to conduct law enforcement operations the same way that we do them. Build up a deterrence capacity that law enforcement in Britain or the Netherlands, for example, has.

And last comment on the election. Yes, I would expect that there will be a lot of pressure, especially at the municipal level by the drug trafficking group in Mexico to influence elections. And at the municipal level is where there will be most vulnerability. And where I think a lot of

the disastrous outcomes can take place with often the federal level capacity to enforce the municipal level being very minimal. I think the story of Michoacan is really the inability to connect the federal level with the municipal levels.

Now also expect that there will be pressures and calling for negotiations with criminal groups that, in my view, would be very bad outcome. But there will be huge political pressures to do so.

MR. PICCONE: Let me ask Andrew to jump in on the cartels in the U.S. question. And then what I want to do is because in the interest of time is, take a few more and just do one more round.

MR. SELEE: On Mary Beth's question just very quickly. I mean, I agree with Vanda. We do lots of law enforcement in this country. I mean, you know, we will hear from our colleagues sometimes in Latin America who say you don't do anything about drug traffickers in the United States. Half a million people are in jail in the United States for drug-related offenses. Not always the right people are in jail, but they are in jail. And what we've seen over time -- and not because of that. I mean, there are a lot of other reasons.

One of the disconnects in U.S.-Mexico relations actually is that we've actually seen murder rates drop enormously over time, whereas Mexico has seen it go up. So it's hard to get sort of urgency about this

stuff here.

Part of the problem, though, is we tend to look at this as law enforcement when it comes across. Because we have it down to manageable levels, you know, we now see it as sort of a local public security question. Which doesn't meant the DEA and the FBI doesn't keep track to some extent on larger rings of traffickers, but we don't have the same sort of strategic mapping in the United States that we the Mexican government does in Mexico -- or we do in Mexico, for that matter, or we do in Central America.

I mean, we don't do intelligence mapping sort of -- near as I -- I could be wrong. But we've asked around the people who should know and as near as I can tell -- correct me if I'm wrong, anyone out there. But we really don't have a strategic map of how these organizations operate because they don't threaten national security in the U.S. They really become a local -- so we may know a Zeta cell in Houston and there may be people sitting around saying, you know, let's connect the 50 Zeta sightings we've had in the country, but we don't have a strategic mapping in the same way that we do in Mexico. And that's something we could correct pretty easily. I mean, easily is, you know -- as these things go. But it's something we could actually put someone in charge in and lead on. And it probably has to come out of the NSC leadership.

MR. PICCONE: Let's just take a couple more from the audience. I see lots of hands. So, here in the middle, more center, and then we'll come over on this side.

MR. SCHNEIDER: Thank you, Vanda, for an excellent report. Mark Schneider, International Crisis Group.

The question relates to one of the things that we've found looking at Latin America as a whole in dealing with problems like drug trafficking is that you have to build the internal integrity and capacity of the law enforcement institutions.

And my question is whether you see in Mexico significant sustainable efforts to build the integrity internally of the police. And also whether as a result of being thrown into the drug war you see any damage to the internal professionalism and integrity of the military?

And the final question is, often we talk about focuses mostly on the North of Mexico. And as you've heard from Kevin, the bulk -- 95 percent now of cocaine coming through the United States -- from Colombia to the United States goes through Central America to Mexico. Only 7 percent of the cocaine goes first to Mexico, 90 percent goes first to some place in Central America. And so I'm wondering whether you see any -- thinking about how do you deal with the problem on the Southern border of Mexico?

MR. PICCONE: Alright, let's take a couple more. Right here.

MR. HERIOT: Judd Heriot, documentary filmmaker. My question is for Kevin.

I was in Central America -- I'm sorry, Guatemala -- during the civil war. And one thing I noticed was the pathetic, abysmal attitude of the elite towards the development of the state and civil society. You mentioned 10 percent revenue collection. When I was there, it was less than that.

So my question to you is, do you regard the attitude of the elites towards civil society in the state as a major obstacle?

MR. PICCONE: Okay, and just one more. Just right behind.

MR. BREIDA: Yeah, Daniel Breida from Drug Policy Alliance. I had a question about President Calderon's repeating of his trial balloon alluding to legalization. He talked about market alternatives to the war on drugs.

My question on that is, what is he doing there? Is that seeking leverage in its relationship with the United States? Is that trying to relive domestic political pressure? What do you think his motives are there?

And on the merits of legalization, specifically marijuana. You

know, RAND says cocaine is the greatest single source of revenue for the cartels. The Department of Justice says its marijuana when they're trying to demonize marijuana. Whatever their single -- whatever the increment of their income comes from marijuana, why not take that income away from them, put it into the legal economy? There is a bill in Congress, HR-2306 with 14 bipartisan co-sponsors to allow states to do that if they so choose.

MR. PICCONE: Thank you. Well, why don't we start, Kevin, on the Guatemala? John, maybe you could do the integrity question. Go ahead.

MR. CASAS-ZAMORA: Yes. Well thank you for the questions.

First about the Southern border. I'll tell you what I saw when I attended the meeting in Guatemala about, you know, the regional meeting, and the international conference on organized crime in Central America.

President Calderon was there, as was President Santos. And I guess most people were expecting President Calderon to offer a lending hand to Central America and so on. That was not forthcoming. In actual fact, he sort of jumped the counter and, you know, started demanding international community to help his efforts and so on.

Which was quite striking contrast to what Santos did, I have to say. I mention this because, you know, part of that strategy to take care of the Southern border should come from the Mexicans. And they don't seem, so far as I can tell, very willing to help the Central Americans. Particularly not in the way that Columbians are. I just leave that, you know, as a -- on the table.

You know the answer to the question. You know the answer to the question about elites in Guatemala. I mean, of course they are a huge part of the problem. I mean, they are a disaster. I mean, when I mentioned the examples of countries in Central America that were making an effort, where the government was making an effort to introduce some kind of wealth, tax -- mostly modeled on the Columbian experience, by the way. Where governments are making an effort to introduce a wealth tax to fund security policies, Guatemala is not on that list. And that's because the elite is hell-bent on resisting any kind of tax reform. And has been for 50 years, by the way.

So, you know, when people talk in Guatemala about the importance of a national fiscal pact, well that's all very well. It's great. But that's the holy grail of Guatemalan politics that hasn't been possible for 50 years.

One shred of hope -- I hesitate when I say this -- is one of

the two candidates that is -- that will contest the second round runoff in November, Otto Perez, who is the -- by all accounts is the leading candidate. He has, you know -- we could go all until the morning saying bad things about him. I mean, there are many bad things about this guy. But there's one saving grace. That he's at least paid lip service to the notion of a fiscal pact.

And in his case, very interestingly he's got this kind of frosty relationship with the traditional oligarchy in Guatemala. I mean, they don't trust him an awful lot. They threw some weight behind him because they really loathed the first lady. But by all accounts, Otto Perez -- who again, seems to be the leading candidate in Guatemala -- seems to be his own man. At least with regards to the traditional oligarchy. That should count in his favor.

MR. PICCONE: Great, thanks, Kevin. John, do you want to say very quickly?

MR. BAILEY: On the integrity key question? Because the police is absolutely important instrument -- ethical and competent. I did an evaluation of the culture of lawfulness in Monterey. A young cadet stands up and says, I believe in a culture of lawfulness. When I start my career, will my sergeant believe in that? That's really the critical point. Which is there's a double institution going on which is the old police culture and

then the efforts to change it.

So as you're trying to ramp up the size of the police the key question will be which way it tilts. Will it tilt towards something ethical or will the new get absorbed into the old culture? And the jury is still out. So let's be hopeful.

MR. PICCONE: Okay. On legalization, Vanda?

MS. FELBAB-BROWN: I'll just add one thing. And the difficulty becomes if you put few newly vetted police officers into a police department that's very corrupt they immediately become eaten up. So once again, concentrating resources as difficult as it is politically.

Under legalization question, I will not pretend that I have great insights in President Calderon's 180 degree change on the question. I suspect that he feels tremendous political pressure because there is huge disquiet with his policies, huge drop of support for his policies from different corners. And I think that he is responding to some of that and he has some very prominent Mexican politicians raising the legalization question.

However, I will repeat what I have published elsewhere. And that is that I do not believe that legalization is the panacea for Mexico's problems. In fact, if Mexico wants to legalize drugs, it will be far more effective in doing so if it first gets its law enforcement in order. Lots of the

violence is not just violence over drug smuggling to the United States. Lots of the violence is protection rackets, kidnapping, very localized violence. A general sense that law enforcement is completely collapsed and hollowed out, and that you can get away literally with murder. Murder is cheap these days in Mexico.

And that changes. And with law enforcement, unless you get to support your cop and fear your cop -- however -- whatever you do with the broad regulation will have no effect if you don't have the capacity to enforce the regulation.

MR. PICCONE: Great. We've actually run out of time. Thank you all for coming, and please join me in thanking the panelists. (Applause)

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