



March, 2009

MEXICO AND THE FIGHT AGAINST
DRUG-TRAFFICKING AND
ORGANIZED CRIME:
SETTING THE RECORD STRAIGHT

Executive Summary

1. In recent months, various commentators, think tanks, public officials, and media outlets throughout the United States have picked up on the label of Mexico as a “failed state” or “narco-state”, issuing dire warnings about the “impending chaos” south of the border.
2. That description grossly distorts the facts on the ground. Mexico is not a failed or failing state. In the 2008 Failed States Index, compiled by the Carnegie Endowment for International Peace, it was ranked 105 out of 177 countries, well above nations such as Russia, China, India, Israel, Egypt, Colombia, and Saudi Arabia.
3. The Mexican government does not deny the existence of the serious security challenges posed by organized crime. However, those challenges require a reality-based response instead of a media-driven frenzy.
4. Mexico does indeed face a significant challenge from organized crime. Well-financed, well-armed criminal gangs have sought to rollback governmental actions through the use of violence and corruption. Their tactics have become more brutal, as a systematic and sustained campaign of law-enforcement launched by the administration of President Felipe Calderón has seriously dented their illegal operations.
5. Nevertheless, while deeply worrying, violence from organized crime needs to be analyzed in a wider context. Mexico has not so much experienced an increase in the level of violence as it has seen a change in the nature of this violence.
6. The current rate of violent deaths in Mexico is 10.4 per 100,000 inhabitants. That rate is:
 - ❖ 25% lower than in 1990
 - ❖ 2.5 times lower than in Brazil, 3.6 times lower than in Colombia, and 4 times lower than in Guatemala; and,
 - ❖ Approximately equal to the murder rate in the United States in the early 90’s
7. Moreover, according to the latest data, drug-related deaths are overwhelmingly concentrated in five states:
 - ❖ Chihuahua, Sinaloa, Baja California, Guerrero and Michoacán, home to 15% of the total population
 - ❖ 55% took place in 11 municipalities (out of 2,492 nationwide)
 - ❖ A single city (Ciudad Juárez) was the scene of more than a fifth of all drug-related murders.
8. The increase in drug-related violence is the direct result of the willingness and determination of the Mexican government to stamp out organized crime and the success of these efforts. Over the past two years, Mexican security forces have:
 - ❖ Detained 59,979 individuals involved in organized crime
 - ❖ Seized 33,454 firearms, over 4.5 million rounds of ammunition, and 2,454 grenades
 - ❖ Confiscated 15,246 vehicles, 261 boats, and 344 airplanes
 - ❖ Seized 77 tons of cocaine, 4,145 tons of marijuana, and 584 kilos of heroin
 - ❖ Confiscated over \$230 million USD in bulk cash

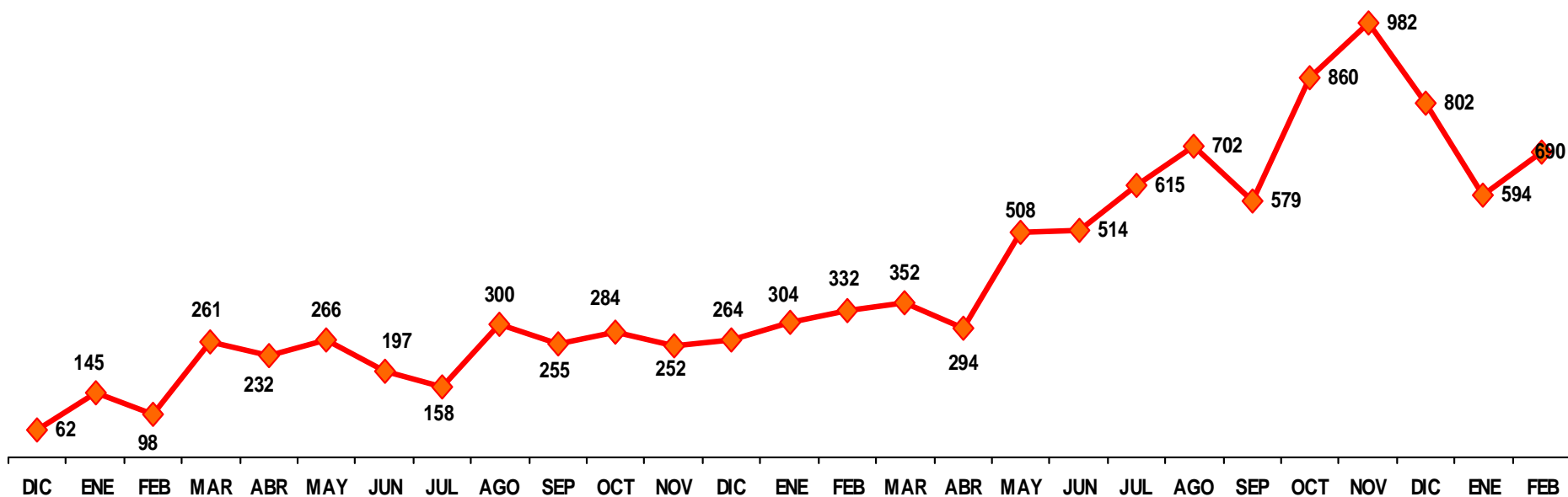
Executive Summary

9. The fight against organized crime goes well beyond law enforcement operations. The Mexican government's comprehensive strategy against organized crime has five major components:
 - ❖ Recovery of public spaces
 - ❖ Law enforcement operations
 - ❖ Institutional reform
 - ❖ Recovery of social cohesion and trust
 - ❖ International cooperation
10. Institutional reform is a key challenge. On that front, the Calderón administration has taken several bold steps:
 - ❖ The judicial system is in the process of radical transformation. The core of the reform includes a shift from an inquisitorial system to an adversarial one, including the introduction of oral trials by 2016
 - ❖ Local police forces are being purged from corrupt elements. Within three years, all 375,000 municipal and state police officers will go through vetting procedures, including strict polygraph tests
11. The Mexican federal government is setting its own house in order. The aptly-named *Operación Limpieza* has led so far to the indictment of a top federal prosecutor, the chief of the Mexican Interpol, and several dozen other public officials.
12. In sum, Mexico simply does not fit the pattern of a "failed state". If one considers the most commonly used variables to identify "failed states": control over territory; provision of public services; existence of displaced people or refugees; civil disobedience; inability to collect taxes; economic disarray; infant mortality and interaction with the international community, it is difficult to see how the label fits. Mexico has strong democracy and solid institutions, a vigorous civil society, sound macroeconomic fundamentals and, above all, the Mexican government maintains full control of its territory.

Public Security in Context

The increase in drug-related murders is a response of drug-trafficking organizations (DTO's) to government pressure and the inability to deliver narcotics to the consumer market in the U.S. It is a process similar to the killing spree suffered by the United States during the crack epidemic and subsequent police clampdown of the 80's and 90's.

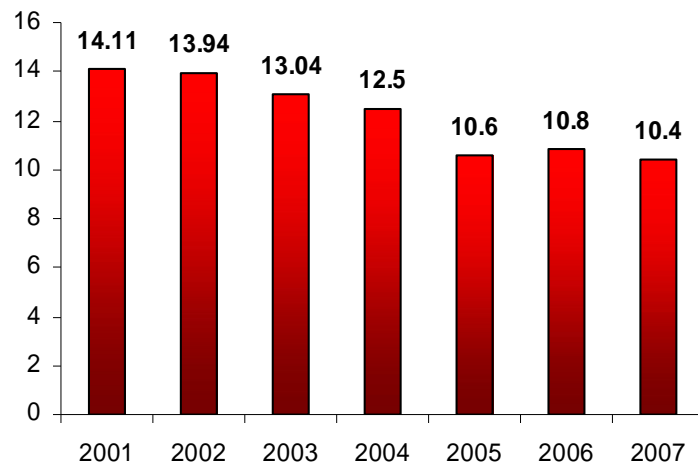
MURDERS DECEMBER 2006-FEBRUARY 25, 2009.
Total: 10,902



Public Security in Context

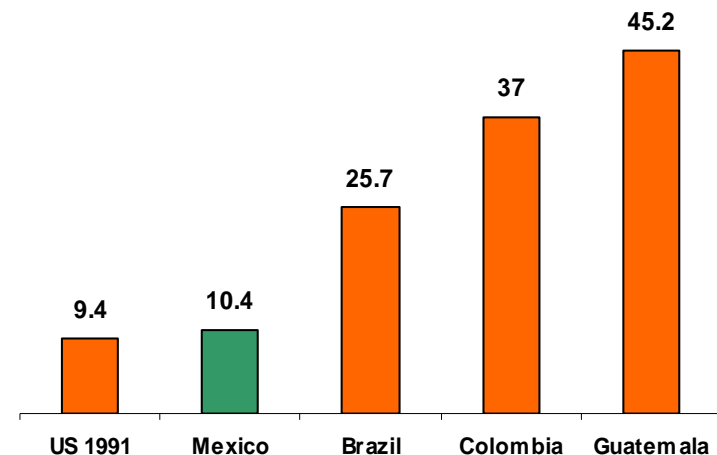
In spite of the recent spike in drug-related murders, the general murder rate in Mexico has been on a downward trend, and remains significantly below regional standards comparable to the rate registered in the U.S. in the early 90s.

MEXICO: MURDER RATE, 2001-2007
(murders per 100,000 inhabitants)



Source: *National Institute for Statistics and Geography (INEGI)*

MURDER RATE FOR SELECTED COUNTRIES, 2007
(murders per 100,000 inhabitants)

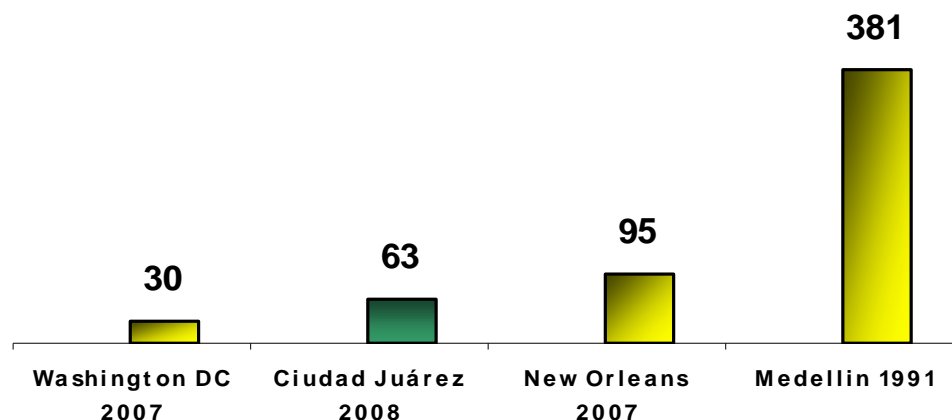


Source: *United Nations, FBI, Mexican Governmental sources*

Public Security in Context

Even Ciudad Juárez, the hardest hit city, has a murder rate that is more or less in line with that of crime-ridden cities in the United States, and is, for example, six times lower than the level registered in Medellín, Colombia, during the Pablo Escobar era.

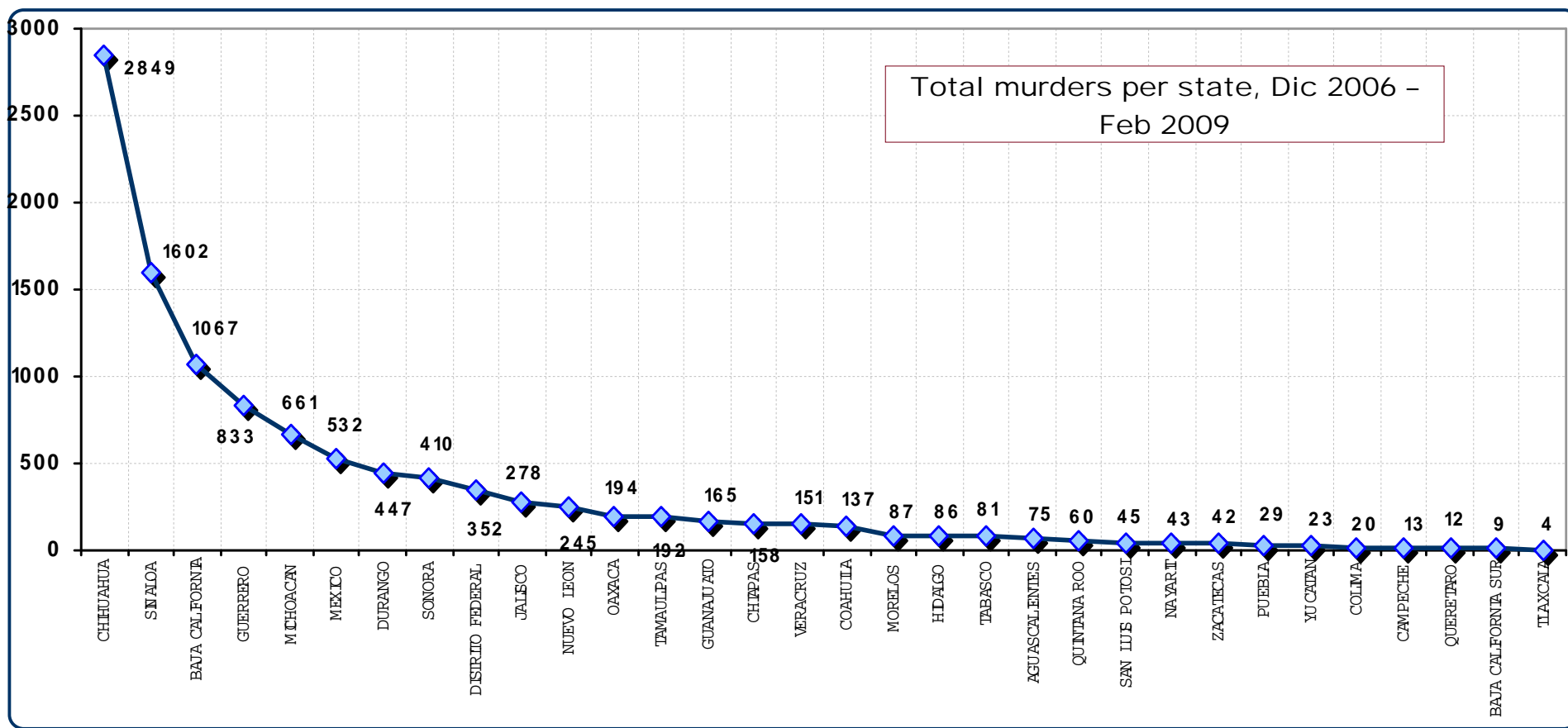
MURDER RATE, SELECTED CITIES
(murders per 100,000 inhabitants)



Source: *United Nations, FBI, Mexican Governmental sources*

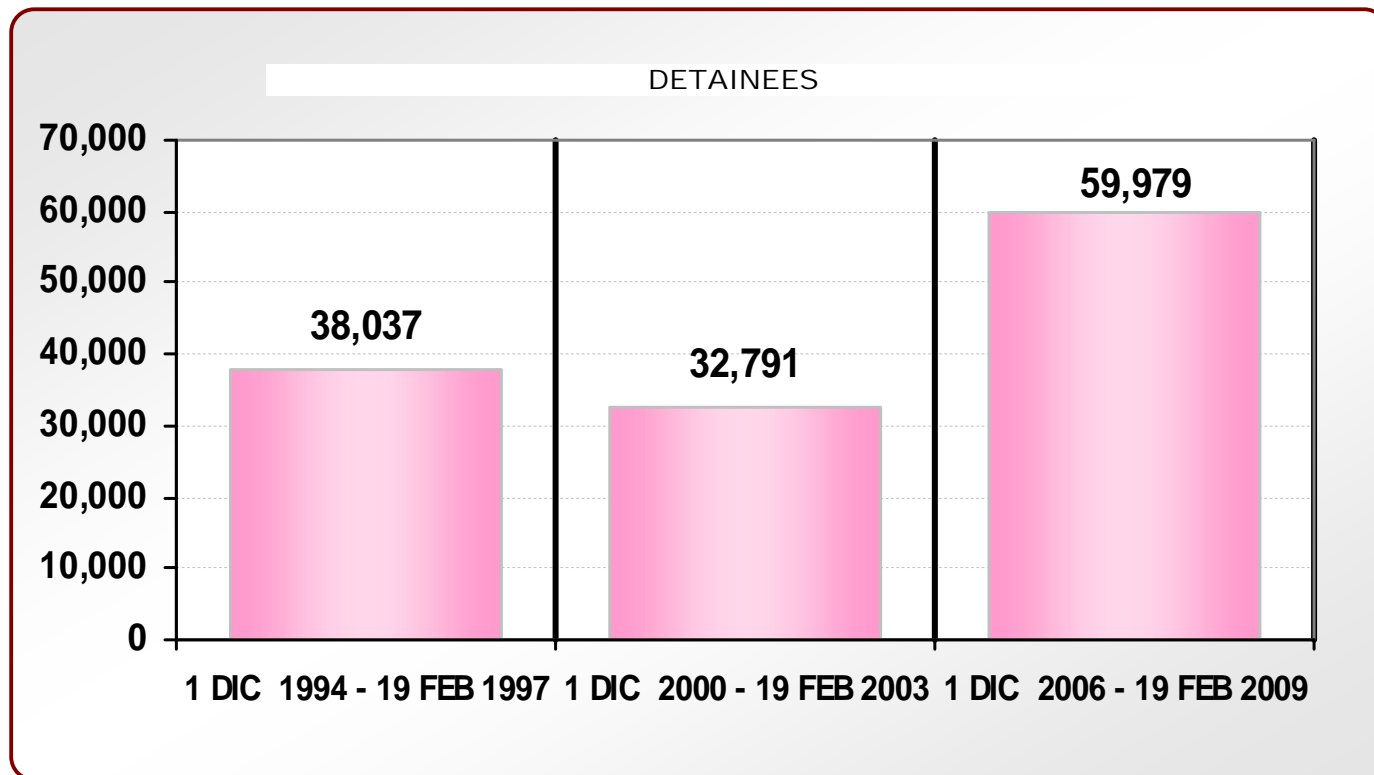
Public Security in Context

Moreover, drug-related violence is heavily concentrated in three northern and two southwestern states, representing 64% of the total: Chihuahua, Baja California, Sinaloa, Guerrero and Michoacán. These states are home to 15.25% of the Mexican population. The most violent state (Chihuahua) has seen 700 times more drug-related murders than the least violent state (Tlaxcala).



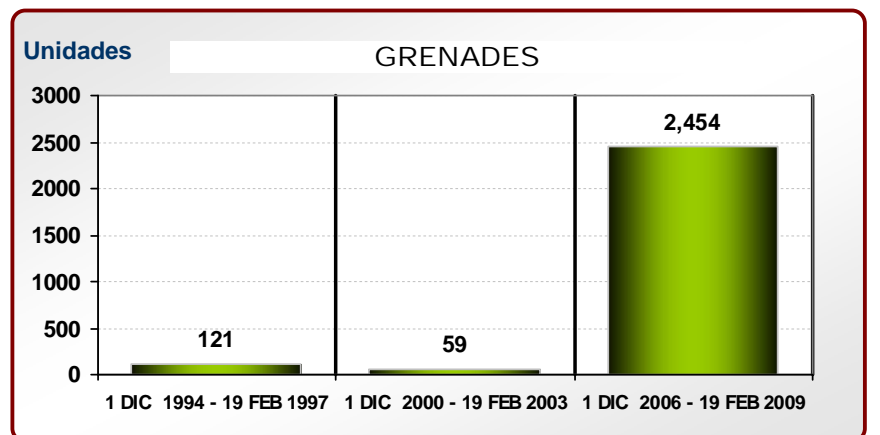
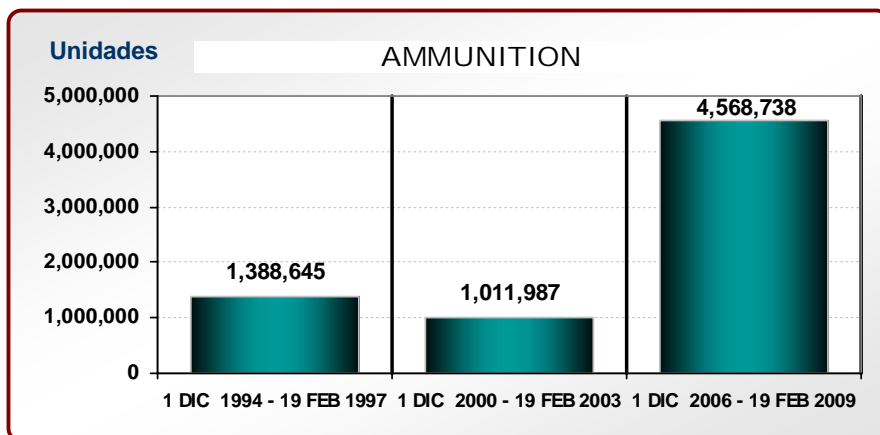
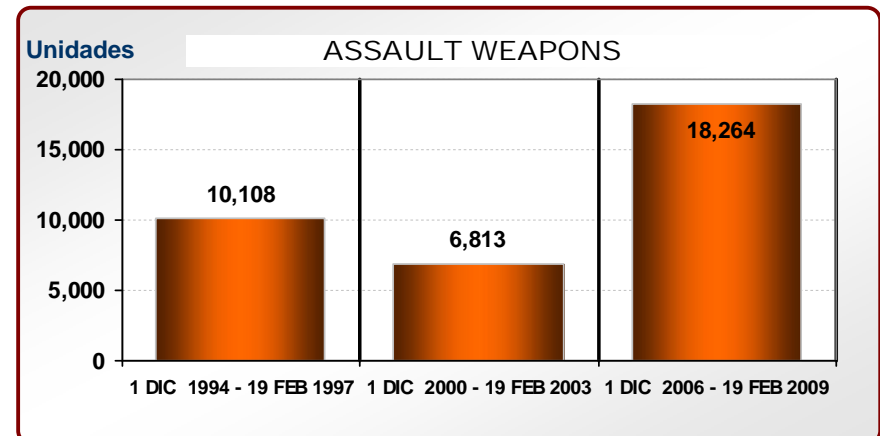
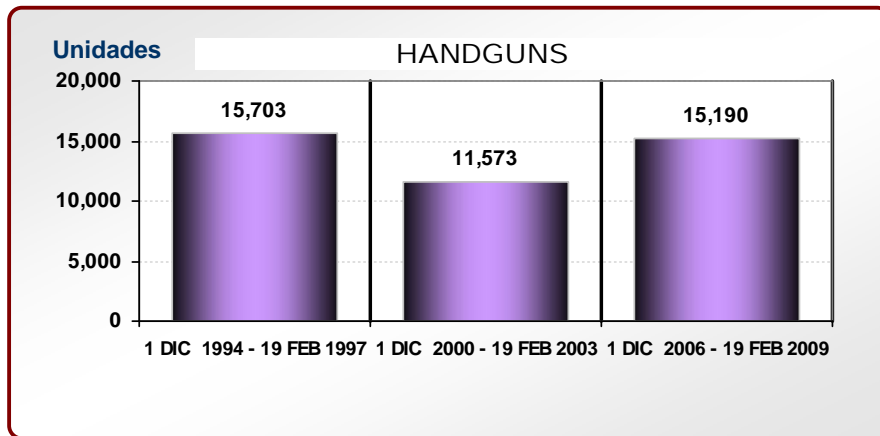
Progress Report

The fight against organized crime is producing tangible results. Since December 2006, Mexican security forces have detained 59,979 individuals linked to DTO's, roughly equivalent to the size of all Central American armed forces and almost twice as many as those detained by the previous administration in a comparable period of time.



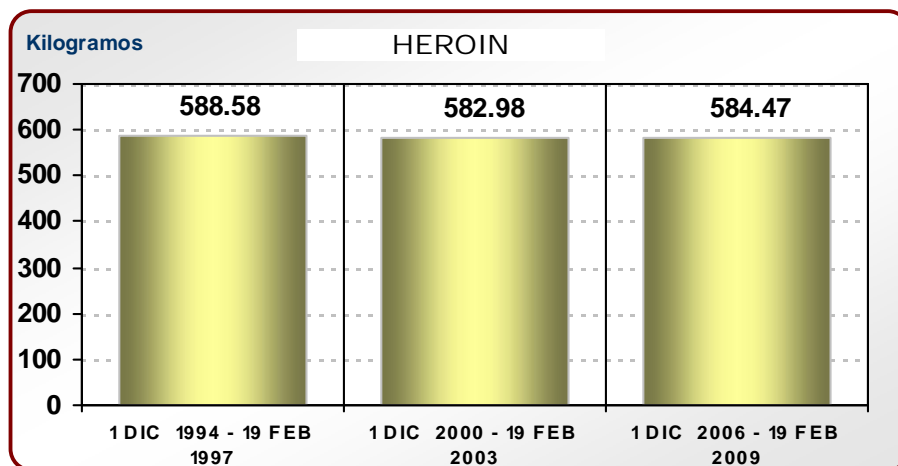
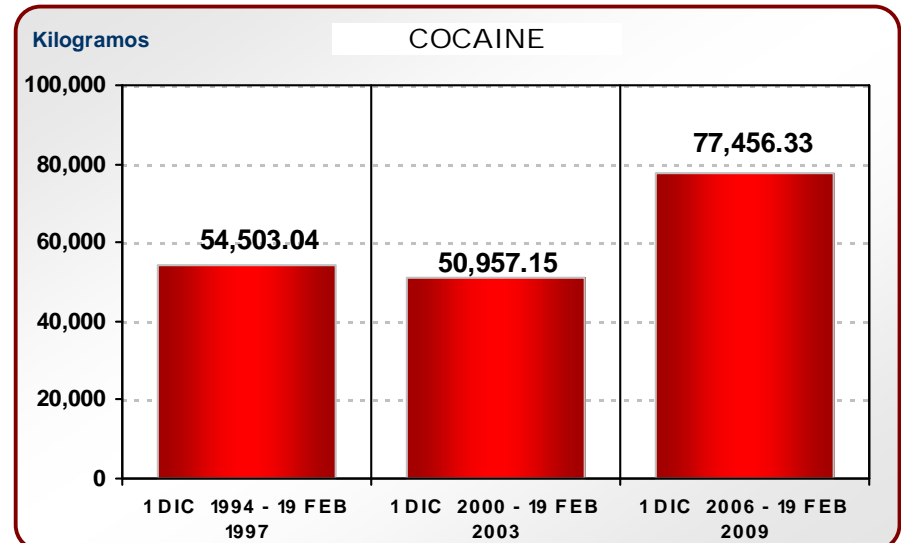
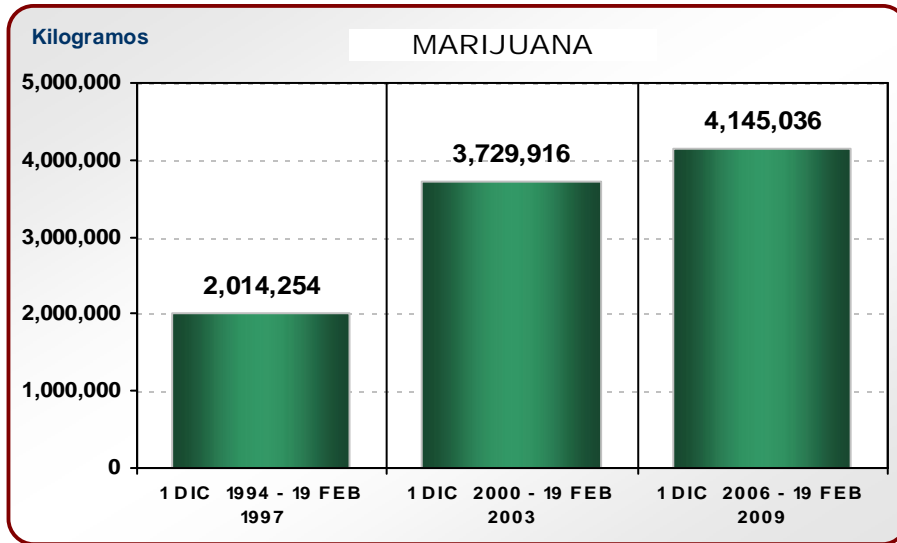
Progress Report

In two years, 33,454 firearms have been seized, 82% more than in the comparable period of the two previous administrations. That arsenal is roughly four times the number of weapons confiscated from the Revolutionary Armed Forces of Colombia (FARC) in 2008.



Progress Report

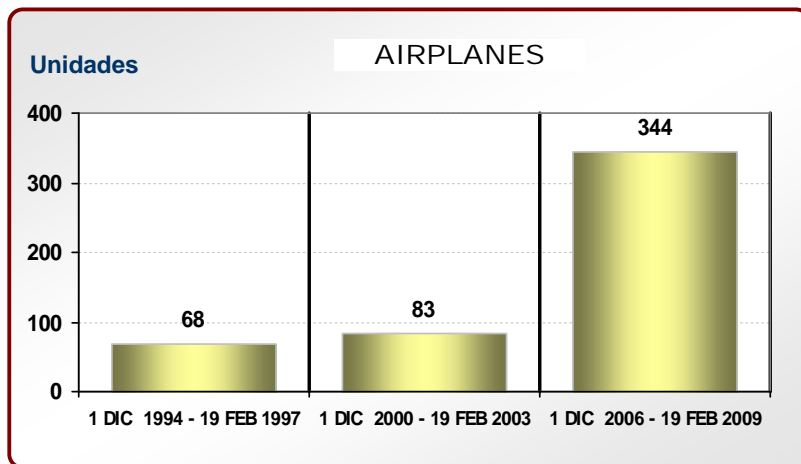
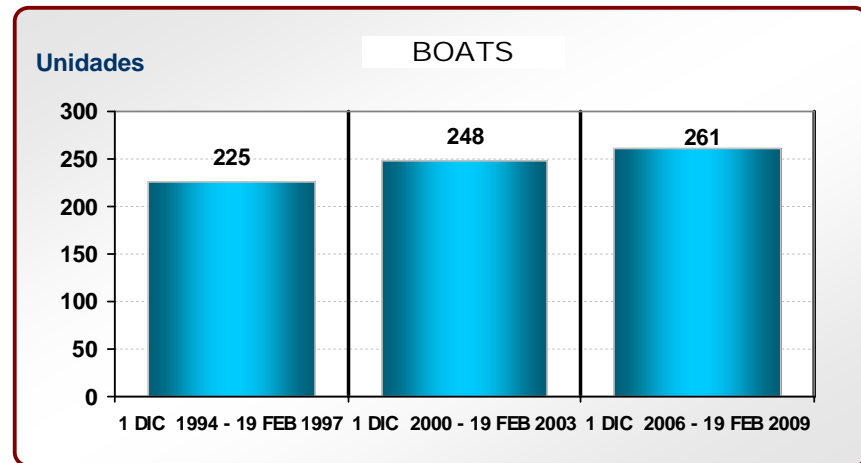
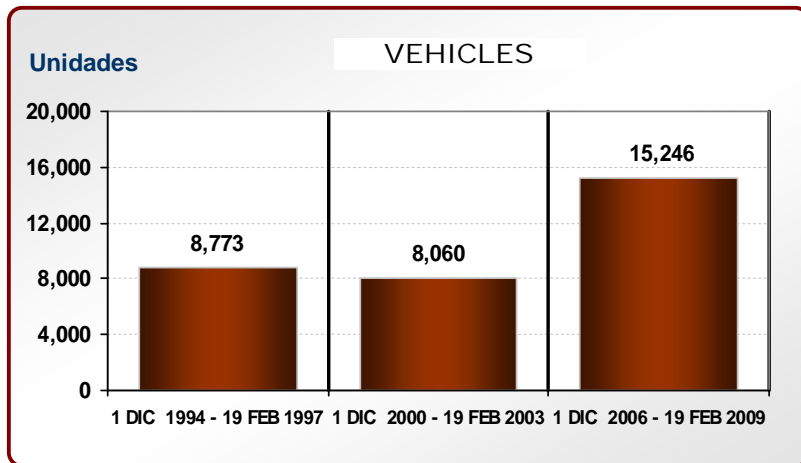
Drug seizures are at an all-time high. Cocaine seizures are 50% above the levels of the two previous administrations



By seizing 77 metric tons of cocaine, the Mexican government prevented 231 million personal doses from reaching consumers.

Progress Report

Mexico is dismantling the command, control and intelligence structures of criminal gangs. Aircraft seizures have increased 314%, car seizures, 89%, and boat seizures, 5%.

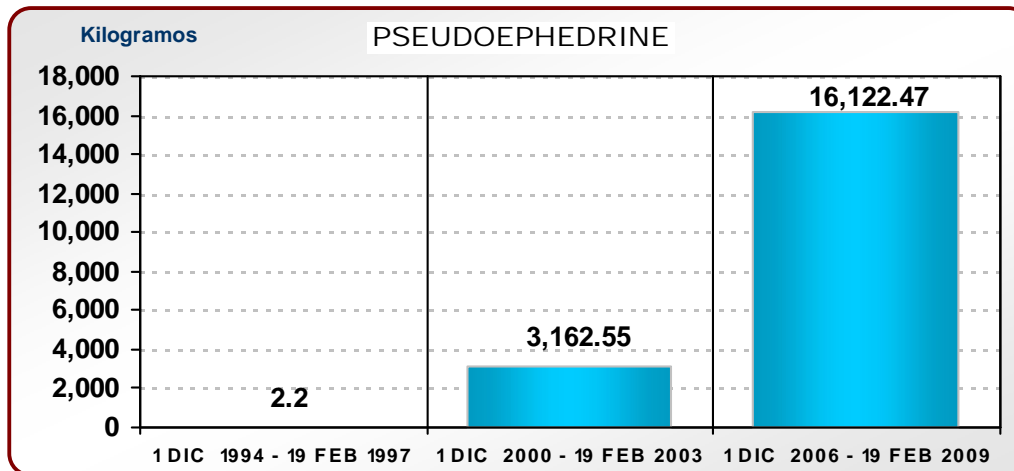
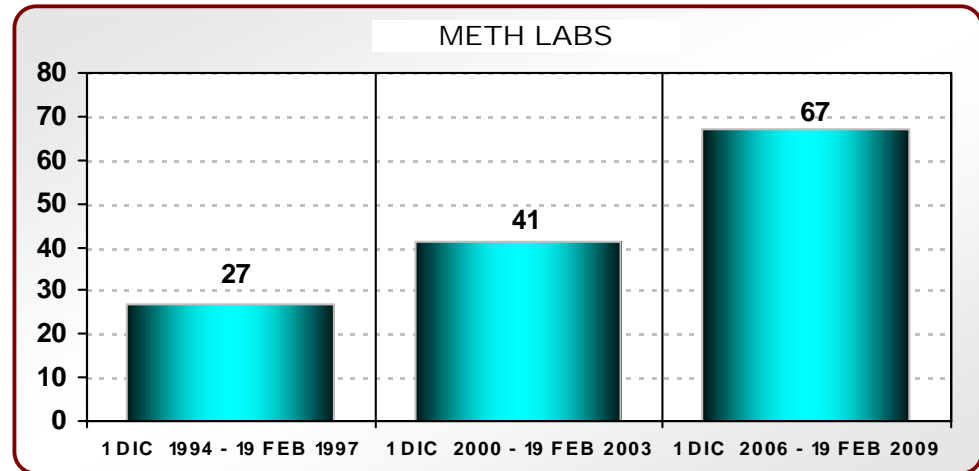


The number of confiscated boats is equivalent to twice the size of the fleet of the Mexican Navy.

The number of airplanes seized is equivalent to 52% of American Airlines' fleet and 76% of Delta's fleet.

Progress Report

The clampdown on synthetic drugs is equally impressive. In two years, 67 labs have been closed down, 63% more than during the same period of the past administration.



Over 16 tons of pseudoephedrine have been seized, a 410% increase compared to previous administration.

Strengthening Institutions

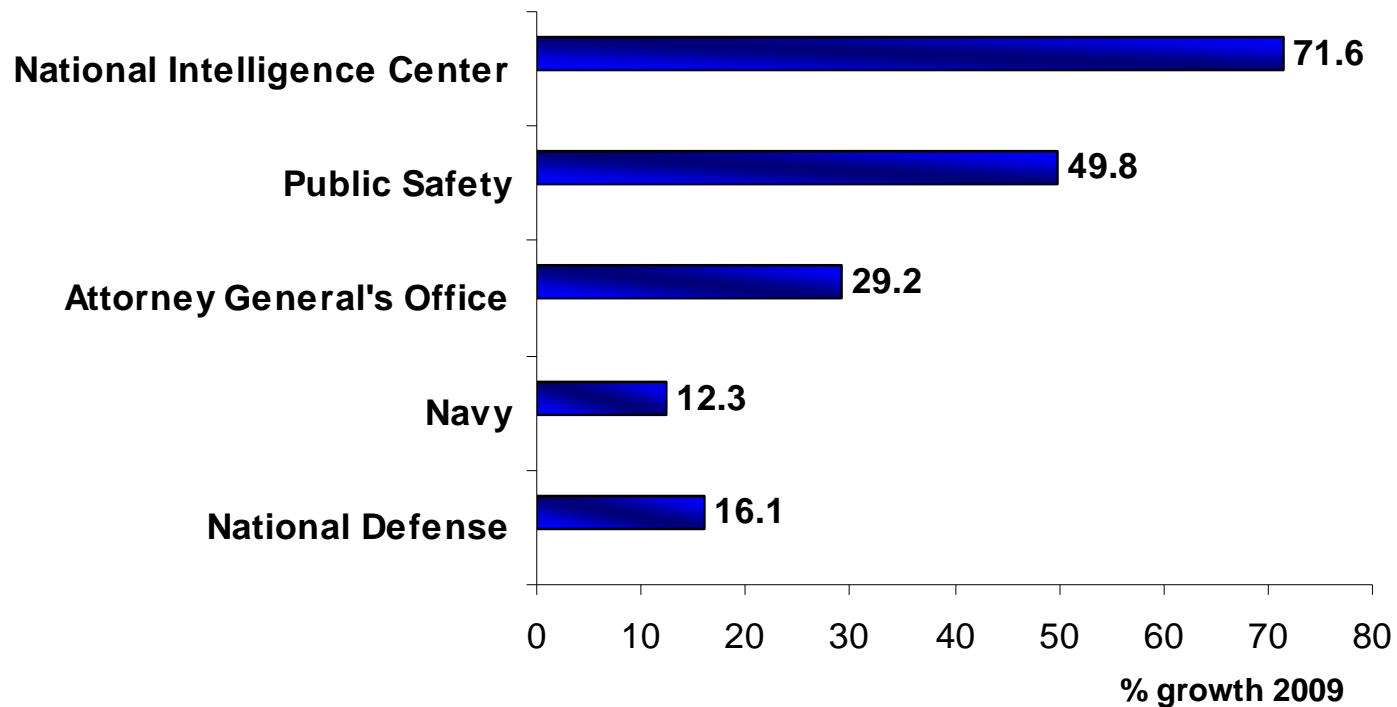
The Mexican government has also initiated a major institutional reform effort. Some of its key components include the following:

1. **A radical reform of the judicial system:** by 2016, all criminal trials will be held following oral, transparent, evidence-based procedures.
2. **A large-scale purge of police forces at all levels** (federal, state, and local): by 2012, all police officers of every single department will have gone through a rigorous vetting process, including polygraph tests.
3. **A major technological leap:** beginning in 2009, every police department will be connected to a secure communications network and will be able to access national databases with information on fingerprints, vehicles, and firearms.
4. **An improvement in interagency coordination:** as a result of recently approved legal reforms, security agencies at the local, state, and federal levels will be able to share information in a more fluid and less cumbersome manner.
5. **Creation of a fusion center (interagency information exchange)** that will produce actionable strategic and tactical intelligence against organized crime.

Strengthening Institutions

The overall security and defense budget is set to increase by 31% in real terms during 2009, with important increases for key security agencies.

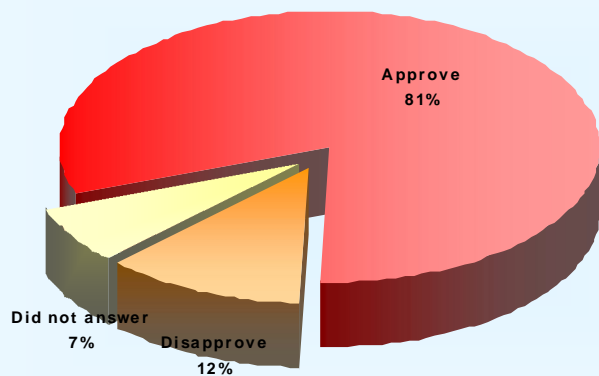
**BUDGET INCREASE BY FEDERAL AGENCY, 2009
(Percentage increase vs. 2008)**



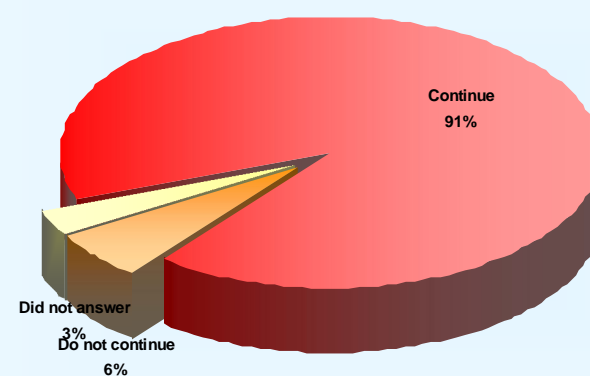
Gaining Social Trust

A large majority of Mexicans support the fight against organized crime. In particular, there is widespread support for the presence of the armed forces in states where there are ongoing operations against criminal gangs.

Do you approve the actions taken by the federal government against drug-trafficking?



Should the Mexican Armed Forces continue supporting the fight against drug-trafficking or not?



Source: *El Universal* - 2008

Failed State?

Mexico ranked 105 out of 177 countries in the 2008 Failed States Index, produced by Fund for Peace and *Foreign Policy* magazine.

Mexico was seen as less likely to fail than countries such as Colombia, China, India, Israel, Egypt, Venezuela, Saudi Arabia and Russia.

Mexico has a relatively low risk profile. It has:

- No significant ethnic conflicts
- No separatist movements
- No territorial disputes with neighboring countries
- No risk of a military coup (the last successful military rebellion was in 1920)
- No known presence of terrorist organizations
- Only a small and extremely limited guerrilla movement
- Full control of its territory

RANKING, 2008 FAILED STATES INDEX

Selected countries

<u>Rank</u>	<u>Country</u>
1	Somalia
2	Sudan
3	Zimbabwe
4	Chad
5	Iraq
6	D.R. Congo
7	Afghanistan
8	Cote d' Ivoire
9	Pakistan
10	Central African Republic
37	Colombia
40	Egypt
49	Iran
58	Israel
66	Guatemala
72	China
68	Russia
79	Venezuela
84	Saudi Arabia
98	India
105	Mexico
117	Brazil

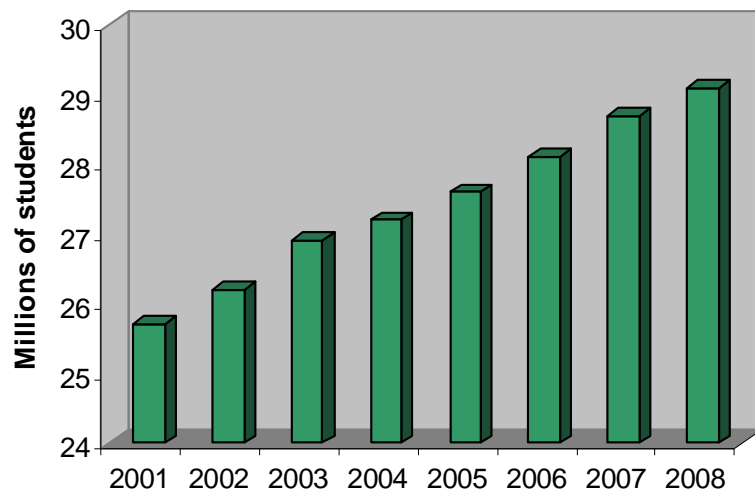
Source: *Foreign Policy*

Failed State?

By all significant measures, Mexico has a functioning state. It does face major challenges in many issue areas, but the Mexican government has a clear and firm commitment to address them.

Mexico provides public education to almost 30 million people...

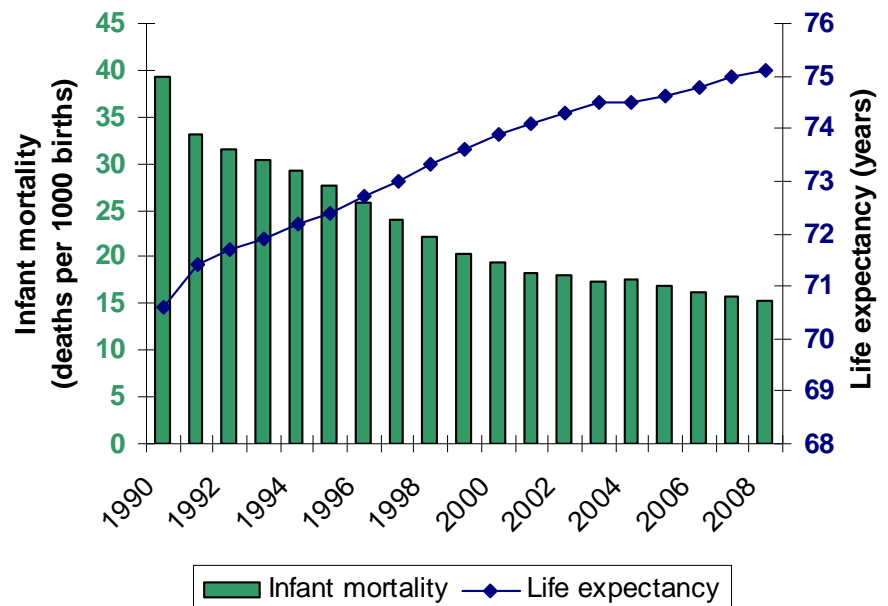
MEXICO: PUBLIC EDUCATION ENROLLMENT
(millions of students)



Source: *Ministry of Education*

...and has experienced a steady improvement in health indicators.

MEXICO: HEALTH INDICATORS

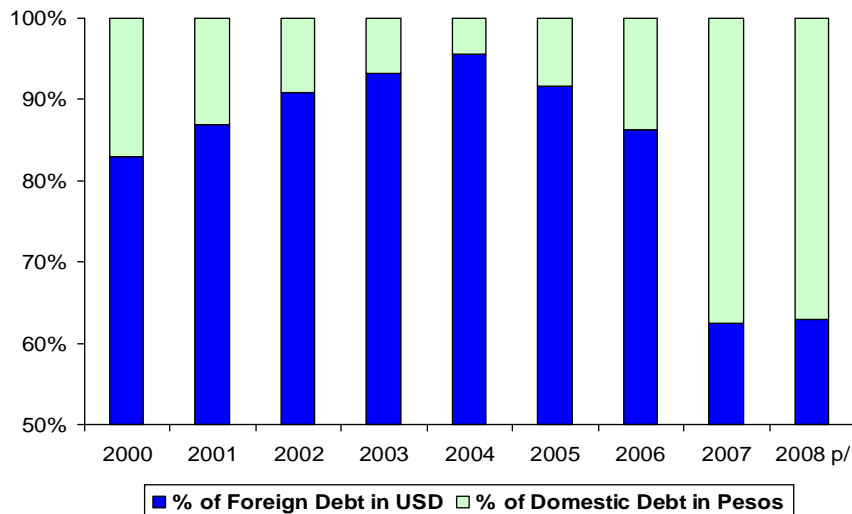


Source: *INEGI*

Failed State?

Public Debt

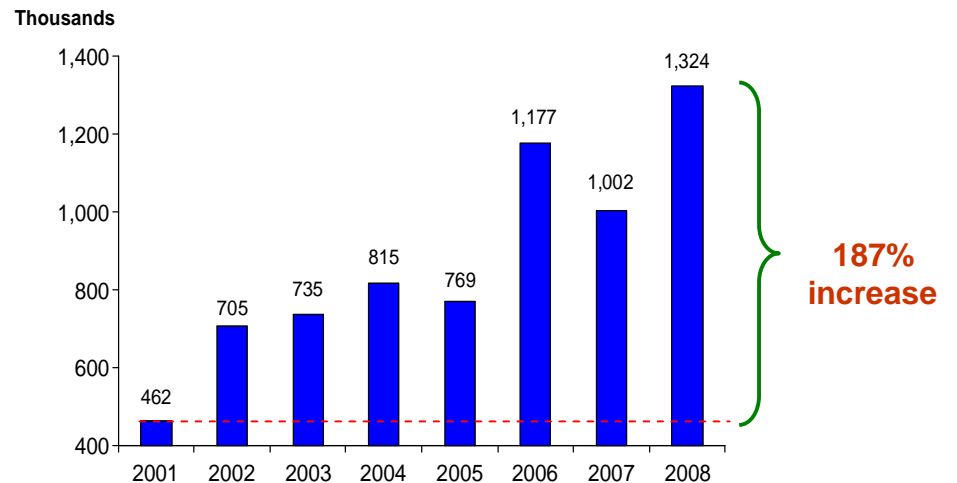
The composition of Mexico's public debt has changed drastically in just six years: in 2004 more than 95% of it was denominated in dollars, and by 2008 only 63% was dollar-denominated. This reduces the effect of exchange rate swings on Mexico's public finances and attests to the confidence that both national and foreign investors have in the peso. In fact, in 2008 the Government successfully issued a 32 year bond denominated in pesos.



Source: Ministry of Finance (SHCP)

Mortgage loans

Financial institutions in Mexico are well-capitalized and regulated, and were not involved in the acquisition of so-called toxic assets. The number of mortgage loans increased by 187% between 2001 and 2008. This confirms confidence by both lenders and borrowers, who have a long-term positive outlook for Mexico's economic future. It is also evidence of a burgeoning middle class that perhaps for the first time in a generation has been able to get a mortgage loan, thanks to macroeconomic stability.

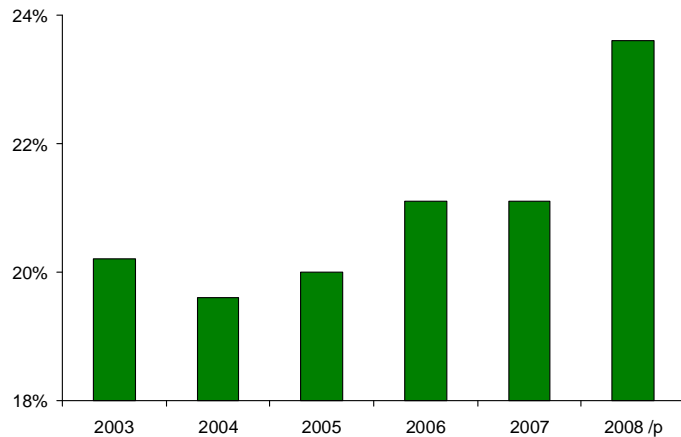


Source: *II Informe de Gobierno, 2008*

Failed State?

Public income as a percentage of GDP

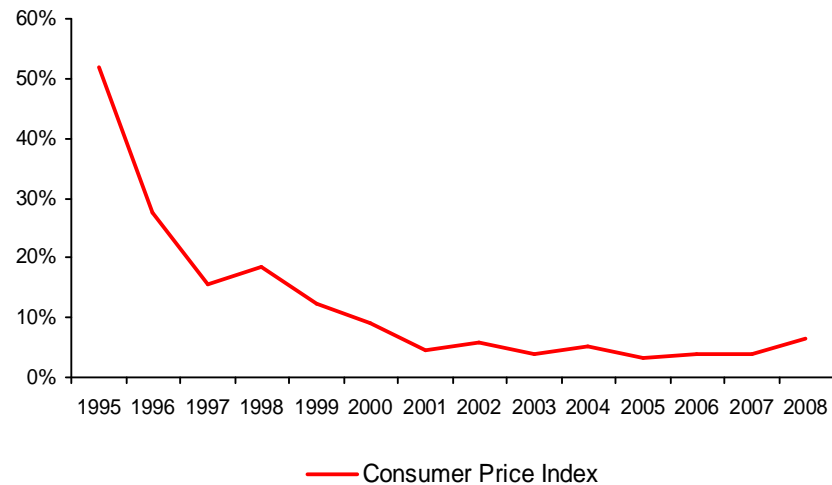
Government revenue has been on the rise for the past 10 years.



Source: INEGI

Inflation

As a result of responsible fiscal and monetary policies, inflation has been reduced and remains at low levels.



Source: Banco de México