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Considering New Strategies for Confronting Organized Crime in Mexico

Introduction

Mexico has experienced an unprecedented rise in crime and violence over the past five years with over 47,000 people killed in crime related violence during this period. For some, the increase in violence is a tragic by-product of President Calderón's full frontal assault on criminal organizations. For others, the government's actions, while well intended, have only marginally impacted trafficking while exacerbating the violence.

Whatever the reasons, both Mexico and the United States are entering a critical period where decisions about the future of security cooperation and crime fighting strategies come more sharply into focus. Both countries will hold presidential and congressional elections in 2012 giving policy-makers and the public an opportunity to take stock of the bi-national security strategies pursued thus far, and debate the best strategies going forward. While it is unlikely that the framework of "shared responsibility" and close bilateral collaboration will be upended, regardless of the election results, 2012 represents an important opportunity to assess the strategies to date and refine our understanding of the security threats posed by organized crime, violence, illegal drug use and trafficking in both Mexico and the United States.

To this end, the Mexico Institute brought together a number of leading scholars and experts to discuss and analyze the nature of security threats the U.S. and Mexico face from organized crime. The result has been the compilation herein of cutting edge analysis and innovative approaches reflecting some of the latest research and information available about drug trafficking, organized crime and violence in Mexico. Together these ideas challenge much of the conventional wisdom and commonly held assumptions about Mexico. They suggest important new strategic directions for both countries that build on what has already been tried, while redirecting current strategies to prioritize reducing the violence associated with trafficking and organized crime.

By Eric L. Olson

MEXICO AND THE UNITED STATES ARE ENTERING A CRITICAL PERIOD WHERE DECISIONS ABOUT THE FUTURE OF SECURITY COOPERATION AND CRIME FIGHTING STRATEGIES COME MORE SHARPLY INTO FOCUS.

Some of the key preliminary findings include the following:

1. More accurate estimates of illegal drug export revenues (approximately US\$6.2billion) from Mexico, as well as an updated breakdown of revenues generated by each of the major drugs: cocaine (est. \$2.8 billion), followed by marijuana (\$1.9bn), heroin (\$0.9bn) and methamphetamines (\$0.6bn).
2. Profits from Mexico’s illegal drug exports appear to represent about 20% of total illegal drug revenue, but this is divided among a relatively small number of trafficking organizations. As a result, total revenues are smaller but profits higher in Mexico than in the larger U.S. market where revenues are greater but sub-divided among many more distributors.
3. So-called drug cartels are neither consolidated organizations nor monopolistic enterprises but more like a network of loosely linked and overlapping criminal groups that are not vertically integrated. These networks, or local criminal organizations, engage in diverse criminal activities such as extortion and the retail drug market.
4. Diversification of criminal activity into local markets including extortion, kidnapping, and the retail drug market, tends to be more violent than

transnational drug trafficking. A significant portion of crime-related violence in Mexico is associated with competition within local illegal markets.

5. Criminal penetration of the state has been exacerbated as multi-party electoral competition has increased. Whereas criminal organizations were once limited by state authorizes and allowed to operate in a mutually beneficial manner, the tables have been reversed and criminals now control important segments of state institutions.
6. Focused law enforcement is more effective than diffuse law enforcement. The state should pursue a focused law enforcement strategy that singles out specific behaviors such as the most violent, or attacks on certain categories of people, beginning with law enforcement;
7. Efforts to bring the Italian Mafia under control can provide useful lessons for confronting Mexico’s current security challenges.

I. Understanding the nature and size of Mexico’s crime problem

Table 1: USG estimates of Mexican DTO revenues (USD billions)¹

<i>Agency</i>	<i>Date</i>	<i>Low</i>	<i>High</i>
<i>ONDC</i>	<i>2006</i>	<i>13.8</i>	<i>13.8</i>
<i>NDIC*</i>	<i>2009</i>	<i>18</i>	<i>39</i>
<i>ICE</i>	<i>2010</i>	<i>19</i>	<i>29</i>

Before proposing strategies designed to reduce security threats in Mexico, a careful analysis of the nature of these threats is essential. Recent research and analysis by scholars and experts contradict some of the most common assumptions about Mexico’s

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Table 2: Mexican DTO's: Estimates of Gross Export Revenues, 2011 (USD billions)²

<i>Drug</i>	<i>Low</i>	<i>Best</i>	<i>High</i>
<i>Marijuana</i>	<i>1.4</i>	<i>1.9</i>	<i>2.5</i>
<i>Cocaine</i>	<i>2.1</i>	<i>2.8</i>	<i>3.6</i>
<i>Meth</i>	<i>0.5</i>	<i>0.6</i>	<i>0.8</i>
<i>Heroine</i>	<i>0.7</i>	<i>0.9</i>	<i>1.2</i>
<i>Total</i>	<i>4.7</i>	<i>6.2</i>	<i>8.1</i>

Graph 1: Drug Production, Trafficking and Commercialization Structure³



criminal organizations and the approximate size and nature of these organizations. There are also a number of areas where the available data is not clear and additional research is needed.

Market size

One area of much debate amongst scholars and policy makers involves questions about the size of the illegal drug market in the United States. Several U.S. government estimates seem to overvalue (considerably) the total market value of Mexico's illegal drug exports to the United States, as well as the amount of money repatriated to Mexico.

According to Alejandro Hope, a former Mexican intelligence analyst, more reasonable estimates of the total export revenue for Mexican drug trafficking organizations in 2011 is between US\$ 4.7 and \$8.1 billion, with US\$6.2 billion as the best estimate. (See Table Two.) This range is consistent with internal Government of Mexico estimates and previ-

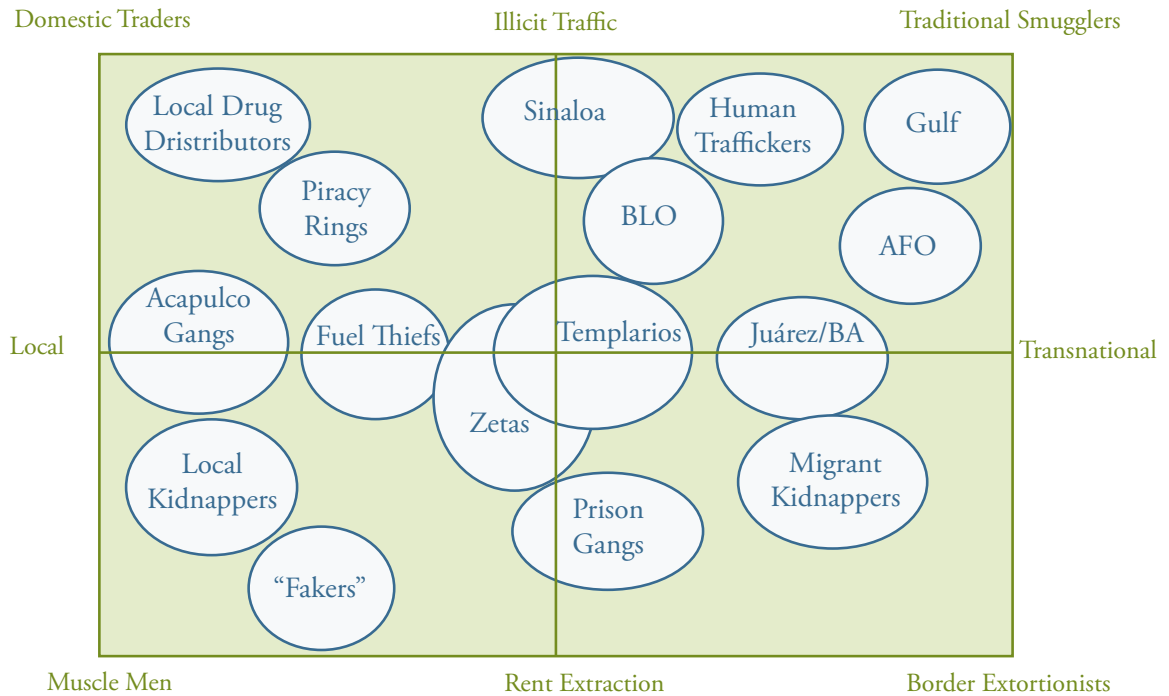
ous estimates by the Rand Corporation of US\$6.6 billion.⁴ These estimates are roughly 25% to 50% less than previous U.S. government estimates.

Additionally, revenues from the four principal illegal drugs are most likely significantly less than usually reported in the press and government agencies. (See Table Two.) Of particular note is the conclusion that cocaine is the largest source of revenue for Mexican traffickers, exceeding marijuana revenues by roughly 30%. This would suggest that current policy focused on marijuana interdiction is missing the largest revenue source for the trafficking organizations.

Profitability

Additionally, illegal drug export revenues for Mexican criminal organizations are relatively small, approximately 20% of the total estimated market value in the United States. Other estimates suggest that as little as 30% of the total value of the

Graph 2: A Taxonomy of Criminal Groups⁵



export market returns to Mexico. The repatriated revenues in Mexico are shared among a much smaller number of trafficking organizations - somewhere between five and ten organizations - so profits for each organization are enormous, according to Marcelo Bergman. Conversely, illegal drug revenues in the United States are significantly greater but are divided among a much larger number of traffickers, resulting in less profit for each individual or network. (See Graph One.)

Cartel or network?

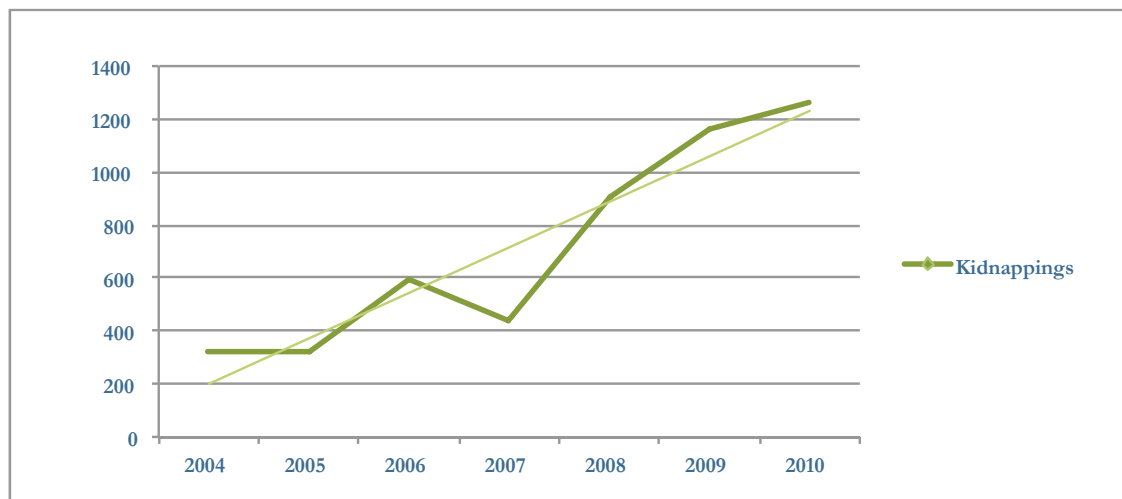
Mexican criminal groups appear to be a diverse set of loosely linked organizations lacking strong vertical integration, according to Alejandro Hope. (See Graph Two.) There appear to be a series of over-

lapping organizations forming loose networks that cooperate in criminal activity but also specialize in various aspects of trafficking – transportation, communication, intelligence gathering – or criminal activity such as extortion, human trafficking, or supplying a local retail market.

Consequently, a trafficking chain can appear well organized and integrated as it brings cocaine from the Andes to the US market; yet each link can also function separately, focusing on their particular criminal interests. In this context, local street gangs can become a part of the transnational movement of drugs one day and the next focus on their primary business, like supplying the retail drug market on their own turf.

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Graph 3: Kidnappings⁶



Diversification of crime:

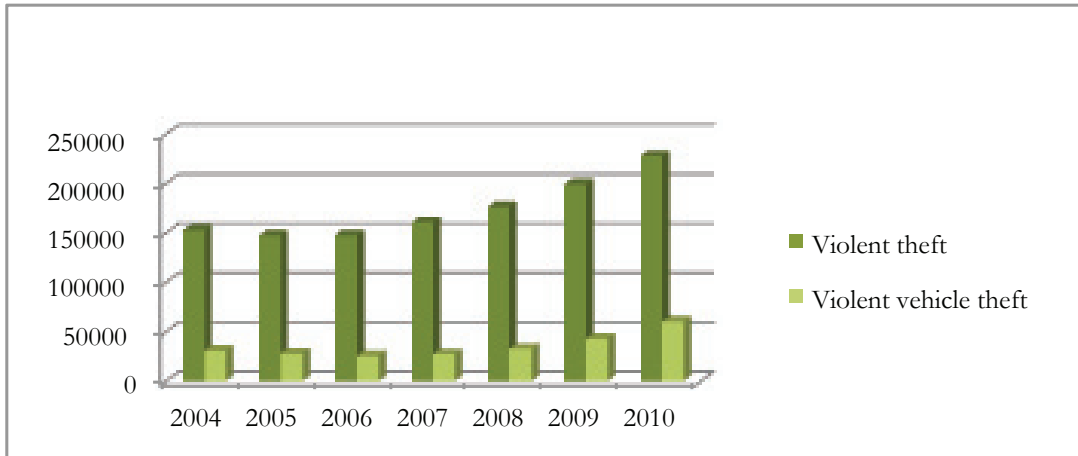
Given the enormous profitability enjoyed by Mexico's international drug trafficking organizations, questions have been raised about the extent to which these transnational groups engage in local criminal activities - such as extortion, kidnapping and the retail drug market - where profit margins are much less. In other words, why diversify when profits are so great? In the past, the assumption has been that transnational criminal groups simply diversify their criminal activity to expand their profitability or as a reflection of declining profits in the drug business; but, the relatively low profitability of extortion or retail drug sales in Mexico calls this assumption into question. By one estimate, it would take roughly 50,000 kidnappings to equal 10% of cocaine revenues from the U.S. (There were approximately 1,300 kidnappings reported in 2010).

Alpha and Beta criminal groups:

A more likely explanation is that international drug trafficking organizations are not as engaged in local criminal markets as once thought, or benefit from them only indirectly. Instead, local criminal markets are largely left to secondary groups. Transnational trafficking organizations (Alpha groups, such as the Sinaloa organization) are primarily focused on supplying the more profitable U.S. illegal drug market and do not exercise direct control over the local diversified criminal markets in Mexico. They may charge a "tax" or "licensing" fee to smaller local criminal organizations and gangs (Beta groups) that focus primarily on domestic criminal markets and tend to operate independently of the Alpha groups within these domestic criminal markets.⁷

Additionally, while cooperation and collaboration between Alpha and Beta groups is the general rule, there are nevertheless exceptions. There is evidence that Beta groups, at times, also use their

Graph 4: Violent Theft⁸



domestic criminal activity to help finance larger, more profitable, drug trafficking activities. These, in turn, can result in confrontations between Alpha and Beta groups in areas where they compete for the larger U.S. market.

Diversification and violence:

Finally, competition over these secondary criminal markets appears to be more violent than the international trafficking of cocaine. For example, trafficking a kilo of cocaine is not inherently violent, while kidnapping and extortion are by their very nature violent. According to national crime data, violent crime - other than drug related homicides - have been on the rise since 2004. Robbery - including auto theft, carjackings, home invasions, as well as domestic consumption of illegal drugs in Mexico - have all been increasing. (See Graphs Three and Four.) Likewise, the size of the Mexico's retail drug market appears to be growing with the number of cocaine or crack users increasing by at least 700,000 from 2002 to 2008; and inmate surveys registering a 40% increase in use from 2002 to

2009. Competition for control of Mexico's retail drug market tends to be much more violent than international drug trafficking.

State capture:⁹

The evolving relationship between organized crime and the Mexican state is a significant factor in understanding current and possibly future dynamics in combating organized crime. Criminal organizations have for decades existed alongside the state. Originally that relationship was one of submission by criminal groups to the state, leaving criminal organizations with three options - conform, go out of business, or be destroyed. Submission, rather than accommodation, was the rule in the era of a one-party political domination prior to 2000. But this arrangement started to breakdown before the PRI's 2000 presidential defeat as its control of state and local governments began to loosen in the late 1980s and more significantly in the 1990s with the arrival of greater political competition.

As political control through mediating federal institutions weakened, the relationship between

drug trafficking organizations and the state was short circuited and sometimes reversed. State governors and municipal leaders were left on their own to deal with the drug trafficking organization. Many of these state and local authorities lacked the capacity, or desire, to confront resurgent drug traffickers and most could not re-establish the previous control or equilibrium. Conversely, criminal groups and traffickers benefiting from ever larger profits as their participation in drug trafficking increased gained the upper hand, resulting in the submission of many local political elites to the interests and power of criminals.

The elevated number of local authorities killed by drug-traffickers suggests that their criminal interests are mostly local. Criminals do not have an overarching political or governing agenda but do participate in the financing and manipulation of local electoral processes. Usually they follow the Colombian model by investing in all political candidates or parties unless there is a specific reason to support one candidate or party in a particular region.

II. New Strategies for addressing crime and violence in Mexico.

Given the complexity of Mexico's security threats, rethinking current assumptions about the problem, and examining experiences (both successful and less so) from other places allows for new strategies to emerge. No simple solution can be divined but some common themes have emerged.

General analytic assumptions:

To begin, there are a number of analytic assumptions that should inform the discussion about law enforcement and anti-crime strategies in Mexico. Drug dealing and violence are linked, so it is often assumed that increasing drug law enforcement will reduce violence, but increased enforcement

DRUG LAW ENFORCEMENT SHOULD FOCUS ON STOPPING THE MOST VIOLENT CRIMINALS

also raises the stakes for criminals. Longer sentences and larger profits are incentives to engage in more violence.

Furthermore, increasing undifferentiated drug law enforcement will not reduce violence; and can, in fact drive up the violence. Concentrated enforcement is more effective than dispersed enforcement. Focused zero tolerance is better than generalized zero tolerance.¹⁰

To reduce violence through law enforcement, a specifically designed strategy is needed. Drug law enforcement should focus on stopping the most violent criminals and not those selling the most drugs.

Law enforcement efforts can contribute to reducing illegal drug consumption - by increasing the price of illegal drugs and through specific parole programs such as the HOPE program in Hawaii - law enforcement should prioritize public safety and reducing violence.

*A new focused law enforcement strategy to reduce violence in Mexico:*¹¹

What would a focused law enforcement strategy look like in the context of current crime and violence in Mexico?

Mexican law enforcement capacity is limited, so its ability to impose substantial costs on drug trafficking is very small. Additionally, increased undifferentiated enforcement in Mexico drives up prices and violence there but does little to drive up cost or shrink consumption in the U.S. Conversely, limiting the size of the U.S. market (reducing demand) could be a powerful disincentive for violence in Mexico.

Several large criminal organizations control the majority of trafficking into the U.S. The use of focused deterrents should put all Mexico drug dealers on notice that the “most violent” among them will be singled out for economic destruction.

The government of Mexico could designate one of these as the “most violent,” and pursue them with a concentrated law enforcement strategy with the support of the United States. The designation of “most violent” should be transparent and open and the criteria announced. Differentiating between violence is important – weighing homicides involving state authorities higher than civilians; or by the number of victims.

By focusing law enforcement efforts on the “most violent” incentives are created to reduce violence amongst all criminal organizations in an effort to avoid the “most violent” designation. Once the designation has been made and announced, and the designee begins to feel the force of concentrated law enforcement, other criminal organizations may try to cut ties to the group. Those involved in distribution networks may also seek to disassociate themselves from the designated organization. Designation as “most violent” could produce “commercial leprosy” that further isolates and weakens the criminal organization.

Risks:

Despite the apparent advantages of a focused law enforcement strategy against the “most violent” organization, a number of questions and risks related to the strategy must also be weighed, including:

It may be impossible to identify perpetrators with certainty, thus designating the “most violent” may not be feasible. If the designation of a “most violent” group is not transparent and accurate, the incentive for criminal groups to be less violent is reduced since they may feel they could be singled out “unfairly.”

LOCAL CRIMINAL ACTIVITY
KIDNAPPING & RETAIL DRUG
MARKETS MAY BE DRIVING
THE VIOLENCE MORE THAN
TRANSNATIONAL TRAFFICKING

“False flag” operations may ensue as organizations seek to cast suspicion on each other, and avoid the “most violent” designation. Additionally, law enforcement authorities already in league with criminal groups may attempt to manipulate official statistics in a way favorable to their allies or unfavorable to their enemies.

A “terroristic” response from the singled out criminal organization may ensue in a desperate attempt to survive.

Violence may be occurring less in drug trafficking markets and more in diversified domestic criminal markets (such as extortion and kidnapping) where incentives might be different, and organizations less vulnerable to a “most violent” designation.

Public and political perceptions of a differentiated and concentrated strategy may be negative if it leaves the impression the government is favoring one or more groups by focusing its enforcement efforts on another criminal organization.

The current illegal drug market in Mexico is so fractured that a focused approach may not reverberate through the market as could be expected. The atomization of criminal organizations and breakdown in “command and control” capacity may mean organizations do not have the capacity to stop or lessen the violence themselves even when designated “most violent.” For example, as many as fourteen different groups are fighting for control of the Acapulco retail drug market making it hard to assign blame for the violence to any specific group.¹²

III. Lessons from other experiences: The U.S. and Italian Mafias.¹³

A review of experiences with the Italian Mafia can also offer some helpful hints on how to approach organized crime in Mexico.

Some of the factors weakening the Mafia in the United States were unrelated to government action. These included: demographic change and a declining flow of young Italian male immigrants to the United States; incompetent, ageing leadership that was not innovative; and trucking deregulation leading to weakened mafia control of the union.

Nevertheless, there were important government actions that also contributed to the Mafia's weakening. For example, the increased power of federal government and growth in federal law enforcement, including the entry of the FBI into organized crime control, were major factors. Additionally, the adoption of specialized legal tools such as regulated (Title III) wiretaps and racketeering laws (RICO); and newly formed organized crime strike forces were also important factors in weakening the Mafia.

What is different about Mexico's organized crime problem?

While Mexican criminal organizations are similar to the Italian Mafias, they are different in some important respects. Mexican organized crime is more market focused, less stable, and less durable. Moreover, Mexican criminal organizations are much more willing to attack the state. Additionally, the violence they employ is more gruesome and has different goals, including intimidating their rivals and terrorizing the public. Finally, they seek to shape public perceptions about organized crime by targeting the media either through violence and intimidation or to control the stories that are published.

ORGANIZED CRIME GROUPS ARE NOT CENTRALLY ORGANIZED & VERTICALLY INTEGRATED BUT RATHER ACT AS A SERIES OF OVERLAPPING NETWORKS

Can Mexico learn from Italian and US experiences?

Some possible lessons from the U.S. and Italian anti-Mafia campaigns that could benefit Mexico include: the need for specific legal tools to attack organized crime; and the importance of institutional reforms and increased law enforcement capacity. The lack of public credibility among all aspects of the criminal justice system - police, prosecutors, judges, and prisons - undermines essential law enforcement capacity. One approach to improving credibility and lessening the risks posed by state capture by criminal organizations is to create incentives and mechanisms allowing agencies to monitor and investigate each other for corruption and unethical behavior. Such overlapping jurisdictions are essential to fighting institutional and systemic corruption.

IV. Conclusions:

A number of important new hypothesis and assumptions have begun to emerge about the nature and extent of the security threats posed by organized crime and violence in Mexico. Together, this work begins to paint a more nuanced picture of the challenges Mexico and the United States are confronting, and suggests that a number of alternative policy options should be considered by both countries.

Key Findings:

- Export revenues for Mexican traffickers appear much smaller than official U.S. estimates

suggest. Revenues from cocaine trafficking are significantly more than marijuana, therefore, perhaps the current policy focus on marijuana should be replaced with one that more heavily targets cocaine.

Nevertheless, profitability is high for Mexican groups because profits are divided among a smaller number of criminal groups.

- Rather than centrally organized cartels, traffickers appear to be organized primarily as a series of overlapping networks that at times work together and, at others, operate independently or compete with each other.

- Given the profitability of supplying the U.S. market, it's unlikely international drug traffickers engage directly in secondary criminal activities that are much less profitable.

- Mexico's domestic criminal markets tend to be decentralized, more competitive and, as a result, more violent. While violent, international traffickers tend to be less so where competition is least. Exceptions occur where there is competition for territorial control.

- The breakdown in the one-party political system and the arrival of multi-party political com-

pletion has contributed to a regionalization of criminal activity. State governments and municipalities have less capacity to bring criminal activity under control, or re-establish equilibrium within the illegal market.

- Factors un-related to strategy may have a gradual but important impact: demographic changes such as declining number of youth; an aging consumer population less inclined to violence; a secular decline in consumption.

Potential Strategies and the Road Ahead:

- Concentration and prioritization of law enforcement efforts is vital. A focused law enforcement approach targeting the "most violent" may create disincentives for violence amongst all groups, as well as, weaken the economic power of the designated group by encouraging commercial isolation.

- The criteria for a concentrated law enforcement strategy should be clear, publicly announced, and transparent. The strategy may also represent risks such as increasing violence, political risks and greater corruption.

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