

THE REGIONAL MIGRATION STUDY GROUP

IN THE LURCH BETWEEN GOVERNMENT AND CHAOS: UNCONSOLIDATED DEMOCRACY IN MEXICO

By Luis Rubio



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IN THE LURCH BETWEEN GOVERNMENT AND CHAOS

Unconsolidated Democracy in Mexico

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Center of Research for Development (CIDAC)

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Executive Summary

Weak institutions are a natural breeding ground for organized crime and corruption. When a political system fails to perform the fundamental tasks of good governance, powerful nongovernmental entities — including military and paramilitary groups, warlords, and criminal gangs — may rise to fill the vacuum. The result is violence, corruption, and, in extreme cases, lawlessness, all of which undermine development and stunt economic growth.

Over the past two decades, democratic transitions in Mexico and parts of Central America have tested the limits of their governing institutions. During Mexico's continuing transition away from one-party rule — which began even before the elections of 2000 — the country has failed to overhaul the governing structures of the old regime, leaving behind weak institutions ill-equipped to handle modern, complex challenges. In a parallel trend, the nature and scale of crime have also changed. Globalization brought an increased demand for consumer goods among the lower middle classes, which created a niche for organized-crime groups eager to facilitate those sales. Over time, these criminal groups dabbled in other illegal markets: car heists were followed by piracy, and then by a shift to drug trafficking, which ultimately erupted in violence as competitors battled for market control. As criminal groups became more widespread, they also got more professional. Additionally, the hardening of borders after 9/11 made it more difficult to use “informal” means to enter the United States — such as relying on corrupt border patrol and customs officers — creating a market for more sophisticated means of human smuggling.

As the challenges grew and became more complex — and noninstitutional actors multiplied and became more powerful — the old mechanisms to control and contain crime and violence proved too primitive.

Over the past two decades, democratic transitions in Mexico and parts of Central America have tested the limits of their governing institutions.

Their weakness played a significant role in the increase of illegality and crime in Mexico. By the time the government decided to confront transnational criminal organizations, they had become too significant in size, structure, and financial resources for government institutions to match. Over the past two decades, organized crime has taken over key activities and even entire industries, noninstitutional actors such as drug cartels have become major players in society and have violently transformed the landscape, migrants have moved in unprecedented numbers, and corruption at various levels of government and law enforcement has become both more widespread and entrenched.

To move forward, reforms must be ambitious. Simply reforming one institution in a sea of lawlessness leads nowhere; there must be a wide-ranging transformation of the political regime. Mexico's challenge is therefore to build modern, competent democratic institutions that are capable of engaging in good governance — only then will they be able to expand economic opportunity and restore economic growth.



I. Introduction

Old governance structures that functioned efficiently in Mexico, and at times in Central America, have deteriorated or collapsed over the past two decades. Specific factors, decades in the making, triggered this outcome — for Mexico, the impacts of globalization; for Central America, largely a clash between elites and the broader society. The objective of this report is to analyze such causal factors and their consequences: illegality, violence, crime, corruption, and the other ways people attempt to adapt to the reality of their lives. The report also analyzes the mismatches between life on the ground and the formal rules that exist in these societies.

Weak government fosters social pathologies that produce unintended results. Extortion, corruption, and the rise of the informal economy — all results of weak governance and feeble institutions — translate into low rates of economic growth and social capital, high rates of violent and nonviolent crime and unemployment, and, ultimately, migration, as people flee crime and search for jobs.

Old governance structures that functioned efficiently in Mexico, and at times in Central America, have deteriorated or collapsed over the past two decades.

From this perspective, the problems that currently affect transitional societies, such as Mexico, are qualitatively different from those of the past. Most of the violence is not government-generated, but is rather the product of weak institutions coupled with the onslaught of extremely powerful exogenous forces. In this context, societies adapt to their circumstances because they have no other choice. Violence, corruption, and other social ills undermine development and provoke responses that are often inimical to economic growth and the deepening of democratic forms of governance. As governments and societies attempt to respond to the challenges posed by criminality, the natural instinct is to reform existing institutions. Reform is obviously needed at various levels, but the strategic emphasis and thrust of those reforms needs to be on strengthening the institutions of governance, for that is where the problem starts.

II. Governance in Perspective

The fundamental functions of government (or any political system) are to create conditions for the development and protection of society, and to manage and process conflict among the individuals, entities, and institutions of that society. By establishing and enforcing rules, building institutions, and creating equality of access or opportunity for the various members of society, the government fosters long-term development and the welfare of its citizens. When these fundamental tasks are not being performed by a political system, the “rules of the game” are set by whoever can grab the most power (e.g., paramilitary groups, the military, warlords, or criminal gangs). In an extreme scenario — one of lawlessness — nobody rules and people live in a state of permanent fear.

For this reason, governance is not an abstract concept; it is the essential ingredient to the functioning



of a society. Each functioning society develops its own structure of government: some can be democratic and based on the rule of law; others dictatorial, based on a structure of rules imposed from above. Both types can be functioning and effective, though a well-institutionalized society tends to be more stable and prosperous, at least in the long term. Obviously, societies are influenced by their particular histories. It is more difficult for countries with a long record of autocratic rule or dictatorship (e.g., China, Romania, and Russia) to develop strong democratic institutions than countries that underwent bourgeois revolutions (e.g., France, the Netherlands, and the United Kingdom).

The role of governance and the rule of law are crucial to development. Modern Western societies have developed durable institutions of governance over centuries of trial and error. Though governance and the rule of law have never been Mexico's strong suit, for many decades in the 20th century, Mexico found a way to govern itself and essentially to manage conflict. It was a most successful venture, for it provided the foundation for economic progress and social stability. Yet managing conflict is not the same as governing or addressing the problems a society faces. For decades the Mexican government succeeded in maintaining stability, but was unable to build a platform for a society that became more demanding and for which the political structures built in the 1930s proved insufficient. Indeed, Mexican society found a way to adjust to the nature of its government. In good times it prospered, in bad times it floundered.

Yet over the past two decades, Mexico and Central America were confronted with new factors that made the functioning status quo unravel. In the case of Mexico, it was organized crime that precipitated the hollowing out of governing institutions; in Central America, it was mostly a clash between the elites and the rest of the society — a clash that traces its roots to the late 1960s.

The violence and social ills of today's Mexico are largely the result of the absence of authority, which in some regions is so complete that government has no presence and all law enforcement has vanished. The dislocation of basic governmental functions has translated into noninstitutional violence. This is the exact opposite of what came before in other regions of the world. During the 1970s and 1980s, for example, many nations in Africa, Eastern Europe, and Latin America experienced violence in other forms: the abolition of basic civil and political liberties, systematic violations of human rights, torture, and disappearances. In most cases, such as in the southern cone of South America, the violence was state led, as dictators, authoritarian rulers, or military juntas took over to re-establish order in the face of societal transition toward democracy.

The violence and social ills of today's Mexico are largely the result of the absence of authority.

Today's phenomenon, the subject of this discussion, has less to do with political or economic forces than with the lawlessness, crime, and violence that essentially resulted from the incapacity of existing law enforcement and judicial institutions to protect the public, establish the rule of law, and govern effectively. In Mexico's case, it is obvious why this happened: the political system proved capable of holding on to power for the benefit of the victors of the revolutionary struggle (1910-21) but was not adaptable to what came next. There was no vision for the future, no attempt to develop a consensus and constituency for a process of change, and no leadership devoted to accomplishing a transition. Decisions were made on a reactive basis, concerned more with addressing immediate problems than building a different reality. Whereas a strong institutional setting limits the damage (or good) an individual leader can do, a weak institutional context turns the individual leader into a critical link in a process of transition. Luiz Inácio



Box I. Democratic Transition and Governance in Three Central American Countries

This report discusses a phenomenon of inadequate governance that Mexico and several Central American nations are living through. While many of its manifestations — instability, criminality, and uncurbed violence — are similar, their role and form vary, shaped by the unique histories, political structures, and institutional development of each nation. Hence, many of the examples cited throughout this report may be applicable to Mexico and/or to some Central American nations, but others will be very specific, applicable mostly to Mexico. Thus, some background information on democratic transitions and governance challenges in Central America may be useful to the reader.

In **Guatemala**, the army held tight control over the political arena, crime control, and the territory until the 1990s. It was the only state agency present in much of the country, and the structure lent itself to endless and horrific abuse and human-rights violations. Under strong European and American pressure, the old scheme was dismantled, and the army was reduced in size and power. In so doing, the entire state capacity was demolished, not to be replaced by any official presence. The army lost control of the territory and, in many areas, was replaced by local criminal organizations — though in a number of cases, the individuals in power remained the same.

El Salvador's civil war ended in 1992 with a negotiated peace agreement. After twelve years of bloody war between the Marxist Farabundo Martí National Liberation Front (FMLN) and a right-wing military-led regime, the government was reconstituted, most combatants demobilized, repressive security forces disbanded, and both sides came together to form a new police force. By then, however, the *maras* — criminal gangs that organized and gained strength in US jails before growing into transnational organizations — had become an overwhelming force, too strong for the new government to control. Today, though elections are generally peaceful, the crisis of governance has deepened as trafficking cartels have joined the gangs in challenging official control of national territory.

Nicaragua offers an interesting contrast. Upon their victory in 1979, the Sandinistas already had control of the nation's territory, had military procedures and methods in place, and were closely connected with much of the populace. They have thus maintained a stronger level of control than other administrations in the region, and a large proportion of the population identifies with them. This last element is critical, for the relative prestige that the government enjoys helps to maintain security. In contrast, Mexican and Guatemalan security forces are isolated from the population, are not seen as belonging and, therefore — in contrast with the Sandinistas — the security and intelligence services are prone to take sides on the basis of interest rather than identification.

Lula da Silva and Hugo Chavez played this role in Brazil and Venezuela, respectively, as did Adolfo Suárez in Spain and Nelson Mandela in South Africa. In Mexico there was an attempt to reform the economy in the 1980s and 1990s, but it was limited by an implicit objective to leave the status quo unaltered.

Broadly speaking, the results of democratization across Mexico and Central America have been different than anticipated. First, dismantling the old order proved much easier than anybody expected. Second, the rules changed and citizens enjoyed much wider freedoms than before. And third, regardless of their specific institutional arrangement, the old regimes guaranteed stability and control — and when those certainties vanished, not all countries found a way to build new and appropriate institutions designed for a different reality.

In this context, why did some societies in transition experience a rise of illegality and even lawlessness? Why have some benefitted from strong institutions and an effective government limited by proper checks



and balances, while others suffer from the exact opposite? Mexico offers an example of weak government, weak institutions, and strong noninstitutional actors that have the power to operate outside the rules, often using or threatening instability as a means to advance their interests — and their control over key functions of the economy and society at large.

The systems proved deft at handling small-impact crime, quarrels, and internal threats. However, as the nature of the challenges became ever more complex and the challengers more powerful (in terms of both money and fire power) the old mechanisms to control and contain crime and violence proved too primitive. Hence, over the past two decades, crime and violence have come to dominate the lives of many people throughout the Americas and Mexico specifically. Organized crime has taken over key activities and even entire industries, noninstitutional actors such as drug cartels have become key players in society and have violently transformed the landscape, migration has risen in unprecedented fashion, and corruption at varying levels of government and law enforcement has become both more widespread and entrenched.

There are two ways to end up with weak institutions. One happens as a result of mere history: a society never succeeds in developing a strong social structure and competent, workable forms of governance. The other happens when functioning institutions of governance are overwhelmed by the corrupting forces of crime, illegal activities, or other potentially triggering factors. Although there must be exceptions, it would seem that there is a correlation (or at least not necessarily a contradiction) between these two: when a country's already existing institutions are strong enough, they can combat the onslaught of illegal activities, and vice versa, when those institutions are weak, they are often incapable of dealing with illegality, crime, and the powers that lie behind these forces.

Over the past two decades, crime and violence have come to dominate the lives of many people throughout the Americas and Mexico specifically.

If one accepts the argument that there is a correlation, though not a causal relationship, between the strength of institutions and the levels of crime and violence in a society, then all diagnoses converge: government weakness is the explanatory factor. There is no doubt that the strength of Mexico's authoritarian government, which lasted from the 1930s until the early 1990s, facilitated outcomes that did not derive from the existence of solid and representative institutions but rather from a capacity to act unilaterally and to use institutional methods not acceptable in a functioning democracy. The process of democratization has the effect of weakening this capacity to act arbitrarily and of eliminating any resort to authoritarian methods.

III. Globalization as a Force for Democratization

Each transition happens in its own fashion, though all have a similar context. In Spain, Francisco Franco died, paving the way for a transition to democracy. In Chile, Augusto Pinochet called for a referendum that ended in a vote against his rule. In Nicaragua, the reign of Anastasio Somoza collapsed after a devastating earthquake and the onslaught of the Sandinistas. In Mexico, a series of financial crises delegitimized the Partido Revolucionario Institucional (PRI) regime, which had held power for more than 70 years. And in



Guatemala, right-wing paramilitary organizations and left-wing insurgents did away with the old regime and failed to build a new one. Each case was different, though all *were* transitions and all happened in a fairly short span of time.

What linked these transitions and altered the environment in which authoritarian governments operated is a phenomenon that has characterized change since the last decades of the 20th century: globalization.

Globalization manifested itself in the way Japanese companies responded to the oil price hikes of the 1970s by dramatically changing their production methods to reduce costs. Then came the financial deregulation that began in earnest in the 1980s. Multinational companies spread across the world, locating plants strategically close to markets, raw materials, or trading spots. Manufacturers and producers of goods began to specialize, raising levels of efficiency, quality, and productivity in ways not previously thought possible. And countries, even those completely inwardly oriented, began to face a new economic reality: investment would no longer pour into domestic development projects unless they were part of rapidly growing global production chains. As the balance of power between states and the market shifted, governments soon came to realize that they had to adjust their policy framework (and in some cases their whole institutional setup) or lose out to more nimble actors.

Nation-states began altering their policies to function in the new international arena, where changes in the global economy began to weaken state control over national economies and societies. The success of some nations put pressure on all governments to join the competition for world market share.¹ These pressures, combined with domestic political ones, undermined existing structures and greatly contributed to the collapse of old regimes. Even long-standing democracies lost control over certain segments of society, such as employment, when major corporations suddenly closed down operations and went elsewhere.

Each nation followed its own path and adjustment process. Some collapsed along the way. Yet what is significant is the context in which this was happening and the broad implications for the ability of governments to manage complex political and economic challenges in an open trading environment. The end of control-oriented regimes had multiple consequences, but none more significant than the ability of criminal organizations to step into the vacuum. Long before violence became a defining factor in the politics of Mexico and Central America, crime took control of several industries within the region, and played the role of matching the pent-up demand of the emerging middle classes with supply (mostly of stolen or smuggled goods from China, to be discussed below).

IV. Democratization, Institutions, and Crime

“Transition presupposes dismantling repressive apparatuses, reconstructing institutions, learning to employ the laws, and protecting the citizen instead of keeping a watchful eye on him,” writes international conflict-resolution consultant Joaquín Villalobos.²

Political transition opens a new space of public freedom and party competition. In the process, it can change the structure of countless institutions, modify power relations in society (and among levels of government), and create fissures in control mechanisms that previously had sufficed to thwart citizens from acting on their own.

The core issue here is the nature and depth of the political transformation. Mexico went through a

1 Susan Strange, “The Limits of Politics,” *Government and Opposition* 30, no. 3 (1995): 291–311.

2 Joaquín Villalobos, “México Mirándose al Ombligo,” *Nexos*, January 4, 2010, www.nexos.com.mx/?P=leerarticulo&Article=73105.



democratic transition in 2000 that was recognized by all political parties. However, the country has not experienced a true regime change, despite the end of one-party rule. To a large extent, the institutions of the old regime remain in place, and although many have become obsolete, there has been virtually no development of properly democratic and accountable institutions. The accidental, disorderly, and unplanned process of dismantling the old regime (which occurred as a matter of course, largely due to the irrelevance of its surviving institutions) has not been accompanied by a process of transformation and building of institutions equal to new challenges. Hence, Mexico today is characterized by democratic practices and demands, but not by a democratic structure. It is in this context that one needs to understand the rise of organized crime.

Mexico has experienced a dramatic transformation in both its governmental structures as well as in the nature of daily life, as crime has expanded within the framework of democratic transition. An initial assumption is that there is an inevitable (and well-tested) correlation between the strength of a society's institutions and the level of illegality and corruption. From this perspective, one reason why crime levels were much lower in the past had to do with Mexico's political structure of authority and control. The passing of that era with the end of one-party rule, which happened gradually but accelerated from 1997 to 2000, surely explains part of the contrasting reality today, where Mexico enjoys democratic governance but suffers very high levels of crime. From structured political systems with control-oriented administrations (but not strong institutions), Mexico and its Central American neighbors went on to develop new political realities that, in most cases, maintained weak governmental structures and weak or nonexistent institutions. In some cases, above all Guatemala, whole governmental structures were dismantled without replacement.

*Mexico today is characterized by democratic practices
and demands, but not by a democratic structure.*

In the 1940s, Mexico structured a public security system based on four pillars: an army, navy, presidential guard, and civilian police, all of which reported directly to the president. Power was heavily centralized and crime was managed more than eradicated. In 1993, following a "democratic" rationale devoid of functional logic, the responsibilities for public safety were transferred to local governments, without building new police or judicial capacity at the local level. Rapidly growing budgets ended up delivering helicopters for governors and big cars for mayors, but nothing specific was done to build enforcement capacity at subnational levels. When political decentralization took place after the PRI lost the presidency in 2000, states and local governments were unprepared to deal with the new reality of democratic rule.³

The Rise of Organized Crime

The first wave of organized crime in Mexico took place in the 1990s, and centered mostly on theft and the sale of contraband and pirated goods. The second wave, which began in the late 1990s, has been mostly related to narcotics, but has spread to other forms of violent crime, including extortion and kidnapping. Both waves are transnational in scale.

A confluence of factors that emerged in several countries in Latin America in the 1990s created space for

³ Interestingly, countries that retained centralized (or *unitary*, as legal expert Marcelo Bergman calls them) systems of government, such as Chile and Uruguay, did not experience power decentralization and also did not find themselves in the midst of sudden rises in criminality.



the flourishing of criminality that had not existed for decades before, according to law professor Marcelo Bergman. Among these factors, he cites the decentralization of power, rising demand by the lower-middle class for consumer goods, the emergence of China as a source of low-priced products that satisfied this market, and the appearance of organized-crime groups eager to facilitate these sales.

The second factor listed in Bergman's assessment is perhaps the most significant and original. The existence of a repressed, pent-up demand for consumer goods by the incipient middle class is not only a factor of economic but also of social and political import: it demonstrates the improvement of these societies as well as the failure of the previous decades' statist economic policies that had handicapped development. The emerging middle class observed the manner in which the upper middle class consumed, but didn't have the economic capacity to acquire the same goods. This source of demand was satisfied by organized crime.

The first wave of criminality materialized in the 1990s, with the theft of automobiles that were dispatched to chop shops for parts or for export to other markets in the region. Over time, other markets prospered: bootleg CDs and DVDs, stolen consumer goods, and so forth. With boundless celerity, Chinese goods inundated the clothing, shoe, electronics, and toy markets in these nations. Consumers of these goods did not, perhaps, have access to the most sophisticated sound or video devices or to the best-quality films, but they had an unprecedented opportunity to copy the elite.

In their seminal article "Broken Windows," James Q. Wilson and George L. Kelling argue that when a building's broken windows are not repaired, street vandals will soon break all the rest.⁴ The authors postulate that when small crime is not addressed, it mushrooms until it becomes a ubiquitous and irrepressible phenomenon. What Bergman has observed in the transitioning societies of Latin America complies with this rationale: instead of assaulting criminality when it began, countries neglected public safety as their governance structures deteriorated or collapsed, their populations preoccupied with building democracy.

Car heists were followed by piracy, then by an increase in drug trafficking, and, ultimately, violence. Of course, drug trafficking had been taking place for decades; what changed was the concentration of the trade in Mexico as increasingly powerful Mexican cartels took the reins away from the Colombians. Mexico had always been a natural route for drugs coming from the south to the US market, along with routes in Central America, the Caribbean, and Florida. The US government's success in virtually sealing Florida from drug shipments in the 1980s made the routes through Mexico more vital. In addition, the success of the Colombian government (in the context of Plan Colombia) in re-establishing its presence and recovering its ability to enforce the rule of law in its territory ended up weakening its drug mafias, though not the drug trade. The consequence of this shift was that Mexican organizations took over control of the distribution business, with radical consequences for Mexican stability.

The Mexican displacement of Colombian drug cartels represented a dramatic shift: once a transit point in a long geographic chain that originated in South America, Mexico now became a territory to fight over as Mexican cartels gradually established their control of specific regions. The 9/11 attacks further solidified this trend: a hardened border made it more difficult to enter the United States using "informal" means, such as bribes to corrupt border patrol and customs officers. The result? Drug traffickers moved closer to the border, built tunnels into the United States, and obtained other, more permanent and sophisticated means of access.

Amid this new reality, the Mexican cartels emerged stronger and with a much bigger business than the Colombians ever had through Mexico — a powerful network of criminality that the existing institutions of the Mexican government proved incapable of controlling. Once these criminal organizations had imposed control over their own regions, they sought to expand into other territories (such as developing and expanding the domestic market) and to control access to major highways and other routes into the United

⁴ George L. Kelling and James Q. Wilson, "Broken Windows," *The Atlantic*, March 1982, www.theatlantic.com/magazine/archive/1982/03/broken-windows/304465/.



States, touching off violent turf wars. Much of the violence that Mexico has experienced in recent years is related to this process.⁵ Many of the players in these narco wars have also moved into other areas of violent crime: extortion, kidnapping, human smuggling, and the like.

V. Institutions and Corruption

So, back to the central question: what happens to a society when corruption becomes endemic, when lawlessness becomes the rule rather than the exception, and when key functions (from government to the economy) are run by informal, illegal, or criminally violent players?

As Susan and John Purcell have argued about Mexico, “The system was held together not by institutions, but by the rigid discipline of the elites in not overstepping the bounds of the bargain. It is therefore less a set of institutionalized structures . . . than a complex of well-established, even ritualized, strategies and tactics appropriate to political, bureaucratic, and private interaction throughout the system.”⁶ Of course, each nation has a different history, and Mexico’s is quite unique in this regard. Still, the implications of weak institutions are relevant.

Mexico’s “new” regime was in transition, characterized by weak and incipient institutions that enjoyed no wide social acceptance and operated in a context of vast informality in the economy and in society at large. It has been under these conditions that the government — and society more broadly — has had to confront transnational criminal organizations that are widespread and huge in size, penetration, and financial resources. Whereas the old system of governance had its weaknesses, most of these were managed through corruption and the acceptance of the presence of special interests disproportionately benefitting from the status quo.

One of the tolerated elements has been economic informality, which has created a culture of the short cut, where everything can be obtained, whether illegally or without documentation, intellectual property licenses, or other regulation. Informality is one of the ways that society adapts to an environment of weak government. (In contrast, Romania and Bulgaria, which are now almost as penetrated by organized crime as Mexico, had strong states and centralized economies, albeit with a small informal economy of people “getting by.”)

A. Institutional Weakness

Institutional weakness fosters a world of informality, but also lets corruption thrive. Corruption in Mexico has evolved significantly over the past several years. Before, corruption was an inherent part of the political system: it served to oil the machinery of political control and to maintain stability. In other words, it was integral to administrative functioning.

Economic liberalization and democratization altered those traditional patterns of behavior, and instead of being an instrument in service of stability, corruption has become an obstacle to development. Not surprisingly and in contrast to the past, today most Mexicans see corruption as an evil, as a distortion in an unfinished process of modernization. The old PRI saying, “Don’t give me anything, put me where it is”

⁵ The Mexican government estimated in January 2012 that 47,515 people had been killed in drug-related violence since the Calderón administration began its crackdown on criminal cartels in late 2006. See Associated Press, “México: sube a 47.515 cifra de muertos en guerra al narcotráfico,” January 11, 2012, <http://noticias.latino.msn.com/latinoamerica/mexico/m%C3%A9xico-suba-a-47515-cifra-de-muertos-en-guerra-al-narcotr%C3%A1fico>.

⁶ Susan Kaufman-Purcell and John F. H. Purcell, “State and Society in Mexico: Must a Stable Polity Be Institutionalized?” *World Politics* 32, no. 2 (1980): 194–227.



(meaning, put me in a position where I can take advantage of opportunities to make illegal income, i.e., corruption), is a faithful reflection of a political system built by the winners of the revolutionary wars and dedicated to their own benefit. That system, still alive in more than one corner of the country, was constructed under the promise that the revolution would provide justice for its loyal lieutenants, giving them access to power and/or wealth through corruption.

Perhaps the greatest merit of the PRI regime was its achievement of pacifying Mexico without being excessively harsh. The country proceeded from the extreme violence of the revolutionary years in the early 20th century to a productive peace that began in the mid-1930s, lacking an effective rule of law but privileging discipline and stability. Despite its political effectiveness, this governing structure was a desolate place where corruption reigned and the most modest citizen of Mexico had no alternative other than to accept life as is: a lawless world and one without the possibility of achieving the most minimal respect for his rights.

In the formal business world, incipient industrial companies that were the product of the import substitution program⁷ lived with another facet of the same reality: the government entity charged with supervising and regulating industry — at the time the Ministry of Industry and Commerce — was a breeding ground for corruption. Everything could be bought at a price: the granting (or denial for competitors) of import and export permits, authorizations for investment, and the speedy processing of paperwork. A company's profitability often depended on its relationship with the authorities.

But the world evolved. In the mid-1980s, a policy of economic liberalization was introduced with a concomitant opening to imports. As a result, regulatory controls became irrelevant and the bureaucracy lost its corruptive power (the ministry was downsized from more than 30,000 employees to fewer than 3,000). Although many indirect control mechanisms have returned and the logic of control through regulation persists, bureaucratic corruption no longer tops the list of the prototypical entrepreneur's considerations. Production, quality, and the market are now the factors that count the most.

While bureaucratic control can foster corruption, it also serves to stave off noninstitutional players. Where the bureaucracy has lost control, corruption has become dysfunctional — a breeding ground for higher levels of crime. Drug trafficking has thrived in those regions, further corrupting the bureaucracy and threatening or dismantling its remaining functional structures.

As such, Mexico's reality remains a bifurcated one: although many things have changed, others have stayed the same. The old Mexico of corruption has stopped being valid in some ambits, but persists in others (those that have not been liberalized, where the bureaucracy is in control or, paradoxically, where it has lost all control, as in the informal economy). The transition to modernity (a space where coexistence is supposed to be governed by impersonal rules [e.g., the law] instead of by personal relationships [where corruption is never far removed]) has yet to be completed. As long as vast swaths of the economy remain on the traditional side of this divide, informality and corruption will remain the way of life.

B. *The Consequences of Informality*

The existence of the informal economy — which, depending on how it is measured, ranges from 30 to 50 percent of Mexico's gross domestic product (GDP)⁸ — is a fact of life. There are several factors that make the informal economy possible and, in turn, its existence provides a fundamental benefit in terms of social stability and is an important contributor to the growing middle class.

⁷ The import substitution program was an industrialization initiative supported by the Economic Commission for Latin America (ECLAC) and based on the notion that all imports could be manufactured domestically regardless of cost, as a means to strengthen sovereignty and create jobs.

⁸ See Jose Brambila Macias, "Modeling the Informal Economy in Mexico: A Structural Equation Approach," unpublished.



Informality can be viewed as an early social response to a weakened government that has proven incapable of creating conditions for economic development and enforcing the formal rules of the game. There are many hypotheses about what causes its proliferation. A key factor in the appearance of an informal economy (or “black market”) occurs when the responsible authority — be it the local government, which typically has jurisdiction over the creation of enterprises and the responsibility to enforce the law for all, or the federal government, through bodies such as the ministry of finance, health, or social security — decides to look the other way. In this sense, the most common and convincing explanation of the existence of informality is that there are so many bureaucratic obstacles to business creation and operation that many opt not to register at all.

A second key element is the government’s willingness to allow the informality to persist. That act shows both the weakness of the government and the ability of individuals to adapt to their environment. The first informal facilities tend to be harassed by various authorities (typically inspectors who can be bribed), but as their number increases, the authorities tend to abandon their role as regulators and gradually come to represent the informal businesses’ interests, to advance their own careers. Once informality becomes a factor to be reckoned with, economically as well as politically, it engenders a new political reality: politicians end up extracting bribes and mobilizing the informal sector to achieve their political objectives. When this happens, everything changes: informality becomes the society’s “normal” and the point of reference for all decisions and actions as institutions of governance are inherently weak or weakened as a result of political change at a different level.

Informality can be viewed as an early social response to a weakened government.

This new “normal” sets the stage for the further deterioration of authority. First, there may be no formal governmental structure involved in the functioning of the informal economy, but the typical pattern of evolution is for such leadership to emerge. This leadership extracts bribes from the informal actors in exchange for protection; sometimes government inspectors themselves become the handlers. Second, since entrepreneurs operating in the informal sector have no formal protection, these businesses are the easiest targets for extortion from mafias of all kinds.

What is the rationale for settling in the world of informality? For a person of modest means, particularly one lacking advanced skills and education, informality is an opportunity, perhaps unique, to develop a business and fend for oneself when sources of formal employment are scarce. From a political standpoint, it is clear that the informal economy (as well as, in Mexico’s case, migration to the United States) has had the effect of reducing domestic political tensions and supplementing household incomes. By increasing overall family income, the informal economy has had a fundamental impact on reducing family instability and strengthening the foundation of an incipient middle class.

The flip side of this is that informality limits the growth of businesses and individuals because it depends on personal relationships, not access to bank credit; that is, it never institutionalizes. Thus, an informal business (assuming that the goods it produces or sells are strictly lawful, i.e., not stolen or smuggled) survives as long as it has access to informal credit (usually very expensive, making its capital extremely costly) and without necessarily increasing its productivity significantly. The result is that informality does not contribute to long-term economic development. It also affects the formal economy by distorting competition and preventing the normal operation of legally established firms. In economic terms, it is desirable for more productive firms to replace the less productive, because that’s what raises wages,



lowers prices, and benefits consumers. The informal economy impedes this development, affecting a country's development potential as a whole.

And this is the critical issue. Informality is not just an economic activity or a way of participating in the economy, it is also a way of life. To the extent that informal activity grows, it alters the behavior of other economic actors, affecting established companies and the population's perceptions at large. As informality becomes a way of life, people become used to informal rules and readily adapt to a changing, informal regulatory environment. Informality also affects the structures of governance in significant ways. Since those operating in the informal arena are not affected by changes in the strategy of economic development, tax laws, and other regulations, they have no stake in any kind of reform, thus contributing to legislative inaction. Economies that do not reform themselves lose competitiveness and capacity to create jobs and wealth. Thus, the larger the informal sector, the less interest society and politicians have in addressing a country's problems.

The informal world is a rough one, often dominated by mafias that exact their own "taxes;" conflicts and disputes are resolved through informal means, which displace the formal forces of order. Over time, the informal space grows: here, the government, the police, and the judiciary have no real jurisdiction. The "new normal" ends up being pernicious not only for those who participate in it, but particularly as it nullifies opportunities for development for society at large. Meanwhile, it constitutes a formidable challenge to the strengthening of the state, which is the only actor capable of countering the growth of mafias, informal powers, and criminal organizations.

VI. The Impact of Organized Crime on Society

Organized crime affects the civilian population in unpredictable ways. Criminal organizations use violence, or the threat of violence, as a means to subjugate the population and to exact compliance with their rules. Crime statistics offer only a partial snapshot of the true role of criminal organizations. The more established and organized such syndicates are, the less violence there tends to be; criminal organizations are driven by business interests and, as long as the population complies, they do not need to use violence as a deterrent. But the threat of violence and the mere presence of these organizations erode public confidence in the formal institutions of society and in government in general. Many people, both in the regions controlled by criminal organizations and among the elites that are not directly affected by them, often assume that no crime is being committed because this is no more than a business — illegal — but a business after all. This helps explain the lively debate on legalizing drugs or negotiating with the organizations that control its trade.

The erosion of state capacity twinned with the ever-larger presence and power of criminal organizations combine to produce de facto governing structures that impose their rules through formally established authorities. In some Mexican states and in weaker nations, like some in Central America (such as Guatemala and Honduras), the cartels often decide who the authorities are or completely override them.

These factors cause permanent damage to a society. The imprint of fear on ordinary lives and the weakening of the fabric of society have huge impacts on decision-making — with expressions as small as changed shopping habits and as large as the reshaping of a nation's presidential politics. Though most Mexicans are not direct targets of criminal organizations or of drug-war violence itself — indeed, many are more preoccupied by fears of kidnapping or extortion — they have been forced to alter the way they dress, how they commute to work, what time they get home, how they socialize, and even where they live (with growing numbers of middle-class Mexicans migrating to the United States).



A. Implications for the Future

“Nation-states fail because they are convulsed by internal violence and can no longer deliver positive political goods to their inhabitants,” argues Robert I. Rotberg.⁹

This is not Mexico’s case.

Though there are a few specific regions where government forces are clearly not in control, the vast majority of the country’s territory remains secure. The government is the overwhelming force in providing services (e.g., education, infrastructure, and health care, maintaining essential order, and the like. This latter statement can be arguable in terms of the quality of services or of order, but not in terms of the fundamental functions of government being essentially in place. In contrast with a failed state as defined by Rotberg, most functions for which the government is responsible in fact work and are delivered in most of the territory. Yet other key functions, such as maintaining public order and protecting the population, clearly do not. Although this is not a case of a “failed state,” it is undoubtedly a case in which the state is overwhelmed and is incapable of containing organized crime and hence preventing violence and harm upon the population.

How does society cope with this inherent contradiction: the delivery of services, sans authority? Here, the government functions rather well in an administrative capacity, but is totally incompetent in dealing with the bigger challenges of this era, such as organized crime and its associated ailments.

Needless to say, as state authority wanes, economic growth declines, investors get scared, and people respond in various ways: migrating, organizing paramilitary or vigilante responses, self-policing, demonstrating against the government, voting for opposition parties, tolerating the authority of the criminals, reducing consumption, and so on. Max Weber’s famous dictum applies here, in amended form: if the criminal gangs hold the monopoly of violence, don’t they become the state?¹⁰

A common pattern in the most affected regions might include violence (typically when a criminal gang clashes with another or with governmental forces) or a monopoly of power in the hands of a criminal organization. The people suffer in both instances, but the effect on their daily lives is very different. The absence of security creates an environment of expectation that anything can happen: from assaults to extortion to kidnappings. People live in permanent fear. The situation is very different when a mafia establishes control of a territory, for it then becomes a *de facto* state: it taxes the people, controls the provision of basic services, and creates what Friedrich Hayek once termed a “spontaneous order,” by which he meant “a system which has developed not through the central direction or patronage of one or a few individuals but through the unintended consequences of the decisions or a myriad individuals each pursuing their own interests...”¹¹ Mancur Olson characterized the phenomenon in a different way: he argued that it was much better to live under the yoke of a despotic government than to be subjected to the abuse of criminals that come and go: the former has a stake in the prosperity of the people whereas the latter could not care less.¹² In other words, for the people, a stable government of criminals is preferable to the instability produced by ongoing criminal violence or the inconsistent or insufficient presence of a legitimate government: the narco-traffickers in Mexico are often praised for their good works, in terms of charitable contributions, support for local sports organizations, etc., in the absence of formal state institutions.

9 Robert I. Rotberg, ed., *State Failure and State Weakness in a Time of Terror* (Washington, DC: Brookings Institution Press, 2003).

10 According to Weber, the state is the entity that “upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order.” See Max Weber, “Politics as a Vocation,” lecture, Munich, January 28, 1919.

11 Friedrich A. Hayek, cited in James E. Miller, “A State of Incarceration: Spontaneous Order behind Bars” (Auburn, AL: Ludwig von Mises Institute, 2011), <http://mises.org/daily/5806>.

12 Mancur Olson, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorship* (NY: Basic Books, 2000).



As criminal networks establish control in specific territories, people adapt to their new reality. Citizens learn to transact with the criminals, who in turn become further entrenched in community life. This pattern is well known from the Colombian experience. When cartels defined themselves as not only the de facto local powers, but also the main sources of economic activity, they became accepted by communities. The question is: at what cost?

There are three issues to look at more closely: first, the effect of violence on the public, society, and the economy; second, the moving target that organized crime represents; and third, government attempts to quell crime. Some of these issues relate to the basic functions of government in an administrative or bureaucratic sense, while others have to do with a political regime, meaning the matter of political participation and democratic governance.

People adjust and adapt to their environment. As has been argued, they do so in various ways. The informal economy and corruption are but two of the most obvious. The other side of the coin is that as citizens distance themselves from a rule-bound world, they also abandon trust in the state institutions that should protect them. They use private security firms, higher walls, and other means of protection. People adapt because they have no choice, but also because it can be functional or better than the alternative.

*As criminal networks establish control in specific territories,
people adapt to their new reality.*

As powerless as some governments may appear, they have both powers and instruments that the people do not. Typical governmental responses are twofold: attempts to reform existing regulations, laws, or institutions; and the use of force to try to re-establish full control of their territory. There are vast and numerous attempts to reform institutions such as the police and the judiciary throughout Latin America. Although there are some success stories, the obstacles to reform range from the legal to the institutional to the political. Most successful cases, Colombia being the paragon, have to do less with specific reforms than with a change in thrust. Once they understood that the issue was state capacity in a different political context, everything changed. Simply reforming an institution in a sea of lawlessness leads nowhere; reform as part of a wide-ranging transformation of a political regime stands a better chance. Many of those that have failed have ended up proposing “mano dura,” meaning repression, as a last resort to revert a rapidly deteriorating situation: not that it works, but its proponents never seem to desist. Others, like Mexico’s PRI in earlier times and the new Guatemalan government, hope to capitalize on their reputations from a repressive past to impose effective disciplines in a democratic context. Colombia proves that there is no middle course: either a government transforms itself or it simply reverts to the past and/or remains powerless.

B. A Role for the Public?

Violence, crime, and a permanent state of siege create their own patterns of adjustment. First, as bodies pile up — and the gruesome toll of decapitations, hangings, and assassinations is widely chronicled — the human mind loses its ability to comprehend, analyze, and respond to the carnage. One massacre after the next turns people off, to the point where they become insensitive to the tragedies and to their neighbors’ suffering. A quote ascribed to Joseph Stalin, probably apocryphal, claims: “one death is a tragedy; a million



is a statistic.” Mexico is not quite there yet, but the phenomenon is nonetheless true, and the tendency is there.

What can citizens do beyond reacting, adapting, and protecting themselves from the onslaught of crime and violence? If the transition to democracy did not come together with an institutional transformation and an upgrade in state capacity, what has prevented citizens from playing a role?

The first issue is why has citizenship failed to grow and develop in parallel to the weakening of the state. Historically, it was the rise of the citizenry that replaced failing institutions, sometimes for ill, as in the case of fascism. In Mexico, although society has risen in many a way, it has largely played a passive role: complaining rather than acting. The question is why?

Three hypotheses can be advanced. First may be the fact that, beyond violence, much of society does not perceive a significant change in daily life. Although the political reality has experienced dramatic change, most Mexicans continue to live under the yoke of old-style, quasi-authoritarian state governors who behave in the fashion of the old PRI system (in the past it was the federal government that dominated, today it is the states).

A second hypothesis might be that the history of Mexico’s authoritarianism is significantly different from that of military-run governments in South America and elsewhere. At least in concept, and without its military and dictatorial thrust, the PRI system was more like the Soviet one: control was attained by conquering the people’s minds more than through terror. People believed in the system and in its structure of rewards. Thus, it may take more than one generation to do away with that legacy, to reach the point where people begin to see themselves as free.

Third, there remain many structural hindrances to the development of a free citizenry. Crime is clearly a formidable deterrent, but others are equally potent: the federal government’s grip has loosened, but the governors have become unchallenged masters, as have the “de facto powers”— special-interest groups (unions, political cliques, some business associations) with the power to veto and/or impose their will. All of these have succeeded in developing and maintaining mechanisms of control that remain tightly in place; people may simply feel unable or too afraid to rise to the occasion.

VII. Conclusions

Mexico’s past success in maintaining order had to do with an effective — albeit rudimentary — structure of incentives and controls, both political in nature. The police and judicial structures were (and largely remain) primitive and unsophisticated. There is no question that the old security infrastructure would have been unable to maintain order, even without the political transition the country went through. The old system was powerful not because it was institutionalized but because of its authoritarian mechanisms of control. Crime was managed rather than deterred. Hence, the challenges posed by organized crime were allowed to become so vast and so powerful that the old system simply collapsed.

The true challenge today is building a new governing structure, one that is capable of dealing with current challenges in a democratic context. The old system was neither democratic nor rules based. It worked because it was dressed in an effective structure of both ideological and practical incentives that provided stability and permanence. Nonetheless, as outlined earlier, society had to cope with the informal and corrupt practices at its core.

The collapse of the old structures has forced citizens to further adapt, and they have done so in any number of ways, some of which have been described here. Clearly, none of these means of adjustment



is ideal or conducive to long-term economic or political development. But that is all a society can do. The risk for a citizenry living under permanent fear of violence is that society itself becomes violent and that it tolerates other types of violence, as well as extreme solutions, violations of human rights, and paramilitary forces in its midst. In Mexico, there is already a little evidence some of the violence and assassinations do not fit the pattern of cartel crime, meaning that some people may be taking advantage of the generalized confusion to settle personal accounts. The risk is that society begins to see this as normal.

The critical objective is for the state to recover the monopoly on violence — Weber’s concept of law and order. In contrast with past authoritarian times, however, this must be accomplished within the confines of a democratic structure of checks and balances. The state exists in order to protect its citizenry. This implies the development of a modern, professional police force and judicial system, capable of eradicating criminal networks and re-establishing the primacy of the state as the governing authority (with Colombian successes as a model).

After years of bloodshed and armed battle, the risk is that violence becomes, together with informality, the “new normal” in Mexico. Such a “new normal” could entail insurmountable obstacles to a return to civility and effective governance. After all, the problem ultimately is not drugs or criminal organizations, but the weakness of the institutions that are supposed to prevent and control criminality.

Clearly, restoring the economy’s ability to grow is part of the solution, but the evidence throughout the world is that economic growth is the result of good governance and not the other way around. Hence, better governance is not only required to control crime and violence, but is also a precondition for restoring economic growth.

The true challenge today is building a new governing structure, one that is capable of dealing with current challenges in a democratic context.

Societies in transition are particularly prone to have weak institutions, which in turn provide space for the growth of organized crime. There is no choice but to strengthen the reform process, not just politically, but economically, judicially, and by developing strong institutions. Strengthening one institution — for example, the army — is not enough. The transition to democracy was the easy part; building a modern polity is an altogether different challenge.

Nation-states, argues Robert Rotberg, “exist to provide a decentralized method of delivering political (public) goods to persons living within designated parameters (borders) . . . They organize and channel the interests of their people, but not exclusively in furtherance of national goals and values. They buffer or manipulate external forces and influences, champion the local or particular concerns of their adherents, and mediate between the constraints and challenges of the international arena and the dynamism of their own internal economic, political and social realities.”¹³

The challenge for Mexico and its Central American neighbors is to overturn the “new normal” and reestablish the conventional normal as both the objective and the reality.

13 Robert I. Rotberg, ed., *When States Fail: Causes and Consequences* (Princeton, NJ: Princeton University Press, 2003).



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