

Mexico's security threat: Organized crime and money laundering

Mexico is seen as one of Latin America's most promising countries with ambitions to become a regional economic leader. According to a Germany Trade & Investment (GTAI) report published by Germany's economic development agency, Mexico will see growth of 3.5 percent for the year 2013.

Averaging between US\$320 and US\$340 billion, Mexico alternates with China as America's second largest trading partner; however, not only for legitimate trade. According to a report published by Chatham House in November 2012 titled: *Organized Crime, Illicit Drugs and Money Laundering: the United States and Mexico*, Mexico has become the number one provider of illicit drugs to the United States. Furthermore, Mexico fell negatively in Transparency International's corruption perception index to 105th place in 2012 from 57th in 2002. According to an article published by Reuters the amount of illegal funds laundered in Mexico on a yearly basis ranges from US\$ 10 billion to US\$ 45 billion. The laundered funds are seen as the main driver of the growing violence in the country, which like other countries in Latin America has seen a dramatic increase in violence in recent years.¹

Given this background, it is clear that the country's potential to continue its path of economic growth and development is threatened by corruption, organized crime, government bureaucracy and the lack of trust in the country's police forces as reported in the Global Competitiveness Report issued by the World Economic Forum 2012-2013. This article sets out some of the crime and security threats currently facing Mexico and measures undertaken to deal with these issues.

Regional crime structures and overlapping criminal networks

Since June 2008, the *Los Angeles Times* has published reports by journalists based on both sides of the border between Mexico and



the United States reporting upon the violent struggle amongst Mexican drug cartels for control over the lucrative drug trade to the United States. According to the newspaper blog titled: *Mexico Under Siege, the Drug War at Our Doorstep* the conflict as it is termed, has left thousands dead, paralyzed whole cities with fear, and spawned a culture of corruption reaching the upper levels of the Mexican state.²

A report published by the Woodrow Wilson International Center (Wilson Center), claims that over 47,000 people were killed in crime related violence in Mexico in the five years leading up to the election in 2012.³ The Wilson Center's Mexico Institute claims that 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. In particular the breakdown in the one-party political system and the arrival of multi-party political completion 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. Rather than centrally organized cartels, traffickers appear to be organized primarily as a series of overlapping networks that at times work together and at other times operate independently or compete with each other. Mexico's domestic criminal markets tend to be decentralized, more competitive and, as a result, more violent. Alejandro Hope's Taxonomy of Criminal Groups⁴ (see diagram on next page) sets out the areas of activity and reach of Mexico's organized crime groups.

¹ Mexico's overall homicide rate (18 per 100,000 inhabitants) is uncomfortably high, but pales in comparison to Honduras (82), El Salvador (66), Venezuela (49), Belize (41), and Guatemala (41), Colombia (33), the Bahamas (28), Brazil (22), and the U.S. territory of Puerto Rico (26) - <http://justiceinmexico.files.wordpress.com/2012/03/2012-tbi-drugviolence.pdf>

² <http://projects.latimes.com/mexico-drug-war/-/its-a-war>

³ <http://www.wilsoncenter.org/publication/considering-new-strategies-for-confronting-organized-crime-mexico>

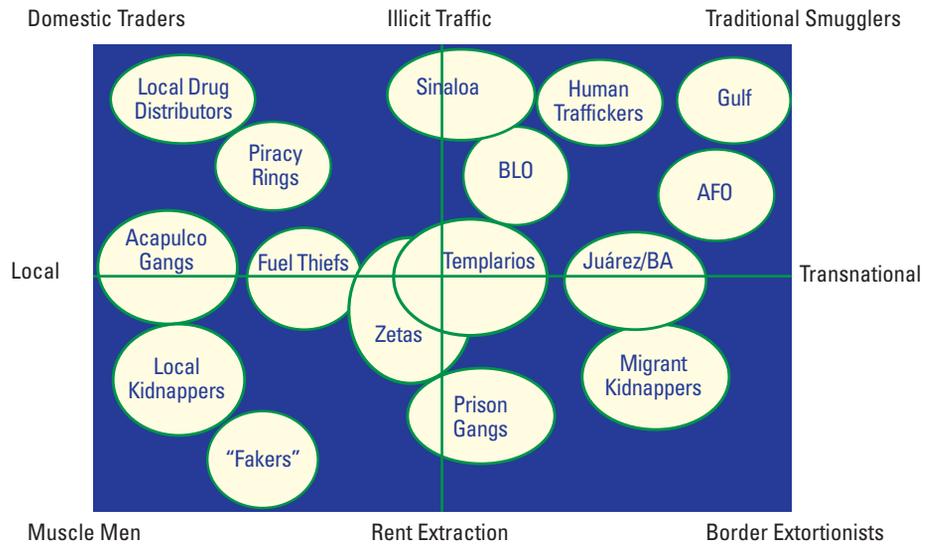
⁴ http://www.wilsoncenter.org/sites/default/files/Alejandro_Hope_0.pdf

The Mexican drug war

The Mexican Drug War is an ongoing armed conflict among rival drug cartels striving for regional control. While it is thought that many factors have contributed to the escalating violence in Mexico, security analysts in Mexico City trace the origins conflict to the unraveling of a long-time implicit arrangement between narcotics traffickers and governments controlled by the Institutional Revolutionary Party (PRI). This is particularly interesting given PRI's comeback to power in 2012.

According to the academic, David J. Danelo, the situation in Mexico is often compared to that in Colombia. He underlines however, that unlike the FARC in Colombia, Mexico's drug cartels have no desire to reshape their country in accordance with Marxist ideology. Mexico's narcotics groups have reportedly more in common with Somali pirates than Colombian rebels: Both groups seek to create anarchy so they can exploit the defenseless and dominate local markets. Like Somali pirates in East Africa's coastal villages, Los Zetas have thrived in stateless voids, stealing money from merchants and becoming minor celebrities within their respective regions. While Colombia faced a political insurgency, Mexico confronts something like land piracy led by powerful drug kingpins.⁵

As reported by STRATFOR, the demise of the Guadalajara cartel in the late 1980s, which controlled drug trade routes into the United States through most of Mexico, has seen Mexican cartels fracturing into more geographically compact, regional crime networks.⁶ This trend has continued for more than two decades and has impacted all of the major cartel groups in Mexico. Although Mexican drug cartels, or drug trafficking organizations, have existed for several decades, they have become more powerful since the demise of Colombia's Cali and Medellín cartels in the 1990s. Mexican drug cartels now dominate the wholesale illicit drug market, controlling 90 percent of the cocaine that enters the United States. Arrests of key cartel leaders, particularly in the Tijuana and Gulf cartels, have led to



Source: Alejandro Hope

increasing drug violence as cartels fight for control of the trafficking routes into the United States.⁷ Sinaloa Federation and Los Zetas are currently the most powerful cartels in Mexico.

According to the U.S. National Drug Intelligence Center, major Mexican-based Transnational Criminal Organizations (TCO) and their associates are solidifying their dominance of the U.S. wholesale drug trade and will maintain their reign for the foreseeable future. Their pre-eminence derives from a competitive advantage based on several factors, including access to and control of smuggling routes across the U.S. border and the capacity to produce (or obtain), transport, and distribute nearly every major illicit drug of abuse in the United States.⁸ These TCOs are extremely well funded and well-armed — and they are presenting a formidable threat to the security, prosperity, and psyche of the people of Mexico and the United States. Illegal drug export revenues from Mexico in 2011 were estimated at approximately US\$6.2 billion, comprised of the major drugs: cocaine (est. US\$2.8bn), followed by marijuana (US\$1.9bn), heroin (US\$0.9bn) and methamphetamines (US\$0.6bn).⁹ Although both the governments of the U.S. and Mexico recognize that they must attack the economic

power of transnational criminal organizations to weaken them the challenges faced are tremendous.

Anti-money laundering efforts in Mexico

Celina B. Realuyo, assistant professor of National Security Affairs at William J. Perry Center for Hemispheric Defense Studies at National Defense University, underlined in a report published by the Wilson Center in May 2012, the importance of anti-money laundering efforts in tackling organized crime in Mexico and alleviating the security threat emerging as a result of the activities carried out by organized crime networks.¹⁰

Former President Felipe Calderon also recognized the importance of preventing money laundering and combating financial terrorism as part of the state's strategy against organized crime. Calderon proposed a law in 2010 to crack down on money laundering in a bid to attack the finances of the country's powerful drug cartels.¹¹ On 11 October 2012, Mexico's senate approved the modifications to the anti-money laundering law introduced by the executive in August 2010 and the current President Enrique Pena Nieto signed the bill into law on 16 October 2012, which came into force in July 2013.¹² The new legislation obliges designated

⁵ https://www.fpri.org/docs/Toward_a_US_Mexico_Security_Strategy_Danelo.pdf
⁶ <http://www.stratfor.com/weekly/mexicos-drug-war-balkanization-leads-regional-challenges>
⁷ https://en.wikipedia.org/wiki/Mexican_Drug_War
⁸ <http://www.justice.gov/archive/ndic/pubs44/44849/44849p.pdf>
⁹ <http://www.wilsoncenter.org/publication/considering-new-strategies-for-confronting-organized-crime-mexico>
¹⁰ http://www.wilsoncenter.org/sites/default/files/Realuyo_U.S.-Mexico_Money_Laundering_0.pdf
¹¹ <http://uk.reuters.com/article/2012/10/11/uk-mexico-drugs-idUKBRE89A1PX20121011>
¹² <http://www.gtlaw.com/News-Events/Publications/Alerts/165136/An-Overview-of-Mexicos-New-Anti-Money-Laundering-Law>

non-financial businesses and professions (DNFBP) to identify their clients and report suspicious operations or transactions above designated thresholds to the Secretariat of Finance. The thresholds vary by sector. The legislation establishes a Specialized Financial Analysis Unit in the Office of the Attorney General; restricts cash operations in Mexican pesos, foreign currencies and precious metals for a variety of “vulnerable” activities; and imposes criminal sanctions and administrative fines on violators of the new legislation. Under the above regulations, casinos, notaries, lawyers, accountants, jewelers, realtors, non-profit organizations, armored car transport companies, armored services, construction companies, art dealers and appraisers, and non-bank institutions providing credit card, pre-paid card, or traveler check services will also be subject to know your customer (KYC) and suspicious transaction report (STR) requirements.¹³ An article published by *Reuters* on 12 October 2012 highlighted that the federal law puts restrictions on cash purchases of real estate, jewelry, armored cars and other assets that criminals use to launder illicit funds and that companies are required to report large cash purchases namely car sales of more than 200,000 pesos (about US\$16,000) and real estate purchases of more than 500,000 pesos (about US\$39,000).¹⁴

The Mexican security threat — efforts and reforms

Despite fears that Mexico would return to being an authoritarian regime following the election of Enrique Peña Nieto as president in 2012 reinstating the Institutional Revolutionary Party (PRI), which had run the country for 70 years, prior to the former regime which held power for twelve years until 2012, Mexico’s current government has been praised for having pushed on with long awaited reforms.

According to a report published by *STRATFOR*, Nieto’s most significant initiative is his plan to consolidate and restructure federal law enforcement in Mexico. Pena Nieto’s ruling Institutional Revolutionary Party has introduced legislation that would switch oversight of the federal police, among other entities, away from the Public Security Secretariat to the Interior Ministry. The president also announced plans to bring the state

police from each of Mexico’s 31 states under a unified federal command. In December 2012, Mexico announced that it would deploy a new 10,000-member security force to regions of Mexico where violence and instability are greatest. Until the new force was set up, the military would remain in the streets in an effort to maintain order. The federal police were to add 15 units that will focus solely on kidnapping and extortion.

Furthermore, in May 2013, Nieto announced the creation of an investigative task force to search for thousands of missing Mexicans in response to anguished families and mothers on a hunger strike. The new effort is part of an effort to whittle down a list of more than 26,000 people who were reported missing, many seized by drug traffickers or by state security forces, during the Calderon presidency.¹⁵

The private sector has also played a remarkable role in dealing with organized crime and the resulting violence in Mexico. Various reports published by the *Economist* in June 2013 portray the private sector initiatives, in particular those in Mexico’s industrial cities which are engaged in reducing violence and contributing to programs to alleviate some of the roots of organized crime in Mexico. The article reported that the private sector has helped the government, with both money and technical expertise, to recruit and run a new police force. The first task was to purge state and local police of infiltration by drug mafias. Rodrigo Medina, governor of the state of Nuevo León of which Monterrey — Mexico’s biggest industrial city — is the capital city, says 4,200 police were fired or jailed after failing the lie-detector and other tests. At first, the armed forces (mainly marines) were drafted to keep order. Then, with advice from the human-resources departments of Monterrey’s biggest firms, the government launched a national recruitment drive to build a new state police force, known as Fuerza Civil (civil force). Although it is in its early days the project seems to have been successful and most importantly enjoyed the trust of the citizens.

Conclusion

According to an article published in the *New York Times* in June 2013, Mexico is undergoing increased scrutiny from NGOs and the local media as well as opposition parties who

challenge and expose the faults of the status quo and increasingly seeking to hold officials accountable.¹⁶ Freedom of information laws, recent legislative overhauls demanding more accountability from state governments and an increasingly technologically engaged society have been more successful in preventing murky finances from going unquestioned. As a result, tales of disgraced former governors are coming to surface and being made public. The culture and mentality of “El que no tranza, no avanza,” or “He who does not cheat, does not get ahead,” a popular Mexican motto, reportedly still remains. According to the same article legal prosecution and enforcement remain an issue in Mexico, as the country has yet to find an effective mechanism to translate citizen participation into structural change. In summary however, naming and shaming is becoming common practice.

From a security perspective and as pointed out by David J. Danelo in a report published by the U.S. Foreign Policy Research Institute in February 2011, no relationship in the Western Hemisphere is fraught with more geopolitical complexity than the one between Mexico and the United States.¹⁷ The two nations are both partners and competitors. Given the economic, social and cultural rivalries, security partnerships between the United States and Mexico have been difficult to create. Failure to build capacity and structure partnerships will enhance the strength of drug cartels and fuel instability and violence. Although serious challenges do however remain, some success stories do exist. Baja California’s turnaround and stabilization from one of Mexico’s most violent to one of its safest, represents a strategic success story. Within the context of this reality and knowing that the proceeds of crime enrich and empower transnational criminal organizations and allow them to undermine state institutions and economic prosperity, financial institutions and their AML officers dealing with Mexico-related transactions do have a key role to play alongside other private sector initiatives in delivering a sustainable future to the Mexican state. 

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¹³ <http://www.knowyourcountry.com/mexico1111.html>

¹⁴ <http://uk.reuters.com/article/2012/10/11/uk-mexico-drugs-idUKBRE89A1PX20121011>

¹⁵ <http://www.latimes.com/news/nationworld/world/la-fg-mexico-numbers-20130528,0,614114.story>

¹⁶ http://www.nytimes.com/2013/06/24/world/americas/official-corruption-in-mexico-once-rarely-exposed-is-starting-to-come-to-light.html?pagewanted=2&_r=2&hp

¹⁷ https://www.fpri.org/docs/Toward_a_US_Mexico_Security_Strategy_Danelo.pdf