

“Mexico at a Crossroads”

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Thank you, I am thrilled to be back at Stanford, and to have been selected to deliver the 2010 Payne Lecture by the Freeman Spogli Institute. No single experience shaped my life more than the four years I spent on this campus. I am honored to take part in this distinguished lecture series, which has raised public understanding of the complex policy issues facing the global community today and increased support for informed international cooperation.

We meet today to consider the relationship between Mexico and the United States. The United States has no relationship with any country in the world that more profoundly affects our daily lives, and the same is true in the opposite direction for Mexico. Our lives and our nations are intertwined – and not just on the questions of safety and security that grab the daily headlines in both countries. Our economies and societies are also indispensably interconnected, to the good of Mexicans and Americans alike.

Today I would like to talk with you about Mexico at a crossroads – or rather, multiple crossroads – and the choices that these intersections present for policy in both countries. At one of these crossroads we find Mexico at the cusp of a global economy – a G20 partner, yet still with over 40% of its population considered poor. At another crossroad there is Mexico’s internal insecurity, where there is terrible violence inflicted by transnational organized crime, but also Mexico’s new initiatives to assert the rule of law over criminal activity. And yet at a third crossroad, we see the intersection between economics and security – whether the virtues of jobs and competitiveness are a weapon against insecurity, or whether insecurity will drive away economic opportunity.

Two examples illustrate the contrasts.

About 120 miles from Mexico City is the historic town of Querétaro, a UNESCO world heritage site known for its charming squares and picturesque cobblestone streets. Mexico's constitution was signed there in 1917. It is not, however, just another quaint, colonial gem, stuck in the past. Querétaro has a very bright future. Per capita income in Querétaro is equal to \$27,000 -- twice the national average -- due in large part to investors such as Ford, Bombardier, and GE. Known for having one of the best community police forces in Mexico, Querétaro is one of Mexico's safest cities.

About 1,100 miles northwest of Querétaro is Ciudad Juárez, right across the border from El Paso, Texas. Homicides from January through July of 2010 rose more than 50% over the same period in 2009. One quarter of the city's homes are abandoned. Whole sections of the city have no public services, including sewers, water or sidewalks. Only about 20% of children graduate from high school and, there are not enough schools to handle 40% of high school-age kids if they tried to attend. Many of the city's schools do not have functioning bathrooms or glass in their windows. Sixty percent of households are run by single women. It is one of the most violent cities on earth, controlled by a variety of criminals, who threaten the residents and the city's institutions. The city's poverty makes a life of crime an attractive alternative -- young robbers receive 500 pesos for each stolen car and 1000 pesos, about \$80, for an assassination.

The relative prosperity and security of Querétaro is as much a Mexican reality as is the violence and despair of Ciudad Juárez. Our challenge is to forge the policies that will help Mexico develop more Querétaros. Today, I would like to do two things that will help us better understand how Mexico can move through the crossroads it confronts today and emerge a better, safer nation. First, to outline the drivers of economic opportunity and insecurity in Mexico. We need to understand these dynamics to define options that can influence them. The second is to sketch the policy directions that Mexico and the United States are pursuing together to affirm the rule of law. Communities, like those of Ciudad Juárez, need economic opportunities to lift them out of despair. International investors need the promise of a stable security situation, like in Querétaro, to invest and create jobs for

Mexico's talented workforce. Those jobs in turn help keep our own companies in the United States prosperous.

Grasping Economic Opportunity

Sixteen years after it was signed, there is little doubt that NAFTA has transformed North America and the U.S.-Mexico economic relationship. Since NAFTA was signed, more than 40 million jobs have been created, and annual trade among NAFTA partners now totals \$946 billion – more than triple what it was in 1993.

Yet NAFTA has also had its skeptics. After China entered the WTO in 2001, Mexican and North American competitiveness stagnated. Mexico took an historic pounding in the 2008 recession, suffering the biggest drop in GDP in Latin America, largely due to its linkage to the U.S. economy. Protectionism risked encroaching into the political vocabularies of both countries. That has been countermanded by the need to compete in international markets. In automobiles, trucks, tractors, railroads, and high technology, we have heard the same refrain from American companies: they could not compete globally if their product lines were not integrated between Mexico and the United States.

Jobs and competitiveness are indeed the issues at the heart of Mexico's economic future, and ours as well. Mexico is doing many things right. It withstood this recession better than any of the previous, periodic economic crises of the last 40 years. FDI increased 28% (to US\$12.2 billion) in the first six months of 2010, and 34% year-on-year from July 2009, posting US\$7.4 billion in the second quarter of this year. Eighty-two percent of foreign investments in 2010 were new investments – only 17.8% were profit reinvestments. Portfolio investment has increased dramatically -- overshooting pre-crisis levels. Mexico's macroeconomic fundamentals are notably strong: the economy grew at 7.6% in the second quarter of 2010, which will help bring GDP growth for the year somewhere between 4-5%. It has low foreign debt, controlled inflation, high international reserves, and sound financial institutions. Mexico today is a bigger market for U.S. exports than all of the Asian newly industrialized countries combined.

The annual fall debate over the Mexican government's budget in itself reflects stability. The key issues have been whether to sustain or lower the Value Added

Tax (currently at 16%), the potential impact of such a decision on revenue sharing with states hard hit by the devastation of record floods, and the implications for rating agencies and interest rates. Mexico has become a fiscally conservative and responsible state. The question is whether its strong performance reflects a breakthrough that will establish Mexico's position as a dynamic emerging economy, or whether it is just a statistical "bounce-back" phenomenon after a year of massive contraction. Comparative statistics underscore the stakes. Mexican GDP growth averaged 2.3% per year from 1994 to 2009, compared with annual GDP growth rates in the 6-9% range for Brazil, Russia, India and China.

Two factors loom large. One is lack of competition. One or less than a handful of companies control these key sectors in Mexico: oil and gas, electricity, cement, telephone and internet, television, bread, tortillas, dairy products, poultry, soft drinks, and banking. Monopolies or duopolies in these key sectors raise prices for Mexican consumers and business inputs.

The second is poverty. Over 47 million Mexicans (44%) live in multidimensional poverty. Poverty exacerbates our tensions over immigration. In areas of instability, it creates a wave of ready recruits for the narcotics cartels. Long-running Mexican government programs like *Oportunidades* have created incentives to keep kids in schools and get preventive health care in rural areas, but they have barely begun to take on the complexities of urban poverty. Also, the narrow reach of the banking sector suggests that a large segment of the population does not have access to financial services. The most recent government figures show that only 20% of Mexico's population has a bank account, compared to 90-99% in the U.S. and Europe, or even 60% in Chile, 43% in Brazil, and 28% in Argentina.

Solving these structural problems will require a consensus of political will in Mexico just at the time when presidential electoral politics through 2012 will make such consensus difficult. There is, however, a window of global opportunity that may be unique but may not stay open forever. To understand this window, we need to look at the driver of foreign direct investment: Mexico's increased competitiveness vis-à-vis China. Mexico's share of U.S. imports rose about one percentage point from January to May of 2010, compared to the same period last

year, while China's share dropped by the same amount. The share growth seems small. The volumes are enormous.

Several reasons are clear. Transport from China costs 124% more than from Mexico, and delivery times average 26 days instead of four. Since August 2008, the Mexican peso had depreciated 21%, while the Chinese renminbi has mildly appreciated. The differential between wage rates has converged. In 1996, Chinese workers earned only about a fourth as much as Mexican workers, but by 2009, they were earning 85% as much. In 2005, it cost \$17 to produce an aluminum auto part in China and \$18 in Mexico; three years later, it cost \$25 in China and only \$20 in Mexico.

The result has been one of opportunity and anomaly. We have seen, for example, a dozen production plants return to Mexico from China – in places like Ciudad Juárez, Baja California, Nuevo León, and Tamaulipas. Cisco Systems has its largest facility outside of the Silicon Valley in Juárez. But at the same time that we see this rise in foreign direct investment, small service sector businesses are boarding up their windows as the cartels expand their “product lines” to include extortion, robbery, and kidnapping. Medical professionals are sending their families to the United States, and even emigrating themselves. Company executives are leaving, finding the constraints of living in cities where their fear for the safety of their families is an increasing concern. The American Chamber of Commerce of Mexico, which represents the bulk of FDI in the country, said earlier this year that 58% of its members felt less safe than they did a year earlier, and 27% were reconsidering investments in Mexico due to security concerns.

There is no doubt that Mexico needs to create jobs, and that jobs are a critical tool for minimizing recruits to organized crime. How long can Mexico sustain the anomaly between increasing FDI and rising insecurity? One investment banker drew this analogy: the relationship of risk to FDI is like a rubber band. You can keep stretching it, but at some point it will snap. Because it has not snapped today may not be a good predictor of what will happen with a bit more strain. And once it snaps, that rubber band is useless. One policy prescription is to relax the tension in the rubber band, and for this we need to understand the drivers of insecurity.

What Drives Insecurity and Violence?

We know that transnational criminal organizations (TCOs) have continued their escalation of violence in Mexico. The violence is escalating numerically, with each of the past 10 years showing a far higher number of TCO-related murders than the one before it. It is escalating in the kind of weapons, tactics, and brutality that the TCOs employ, with a series of car bombs and grenade attacks being the newest, ugliest innovation. It is escalating in its impact on otherwise uninvolved innocents, as the TCOs expand from drugs into extortion, robbery, blackmail, kidnapping, carjacking, trafficking in persons, and other crimes. A gubernatorial candidate was killed in June. Eleven mayors have been assassinated this year.

Since December 2006 Mexico has had about 29,000 drug-related homicides. Depending on the source, there were about 6,600 to 9,000 homicides in Mexico in 2009. By September 2010, the nine-month total was in the range of 8,700 to 9,500. At this pace, Mexico could exceed the 2009 record with 13,000 homicides in 2010. As a national average, Mexico's homicide rate, at approximately 14 per 100,000 inhabitants, is little more than half of Brazil's 26 homicides per 100,000 inhabitants. But the violence is unevenly distributed. In Ciudad Juárez, the homicide rate is 191 per 100,000 persons, making it perhaps the deadliest place in the western hemisphere. In Monterrey, which was relatively safe until recently, murders in 2010 are already equal to the total of all murders over the previous twelve years.

Much debate has been focused on whether the violence in Mexico represents an insurgency. The short answer is no. There is no political, religious, or ideological motivation to the violence, and the TCOs do not seek to govern. In their bid to clear the way for their criminal enterprises, they do seek to intimidate and corrupt public officials, much as the mafia did in the U.S. in the 1920s, or in Italy for decades. Whatever the label, there is no denying the signs of increasing inhumanity evident in TCO violence, among themselves and towards the authorities. Far too much time has been spent arguing over whether the "insurgency" label fits the Mexican situation. We need to spend more time on understanding the problems and identifying the solutions. For this, it is critical to look at the sources and causes of the violence: the socioeconomic phenomenon of clashing addicts, the radical change in the Mexican market, and the recent pressures on the drug trade.

Let's begin with the socio-economic issues. Poverty has left young Mexicans with few alternatives. For some the choice is to emigrate. Others become the ready recruits of cartels or gangs. In 2008 and 2009, a perfect storm hit Mexico – an economic recession that stripped away jobs both in the United States and Mexico, giving criminal organizations an even larger labor pool from which to recruit. Increasingly these kids are paid in drugs, and that has generated its own cycle of violence. About 70% have become addicts. In parts of Mexico the battles are no longer just among higher-level cartel or gang leaders, but among kids fighting to control a street corner so they can sell their drugs and feed their own habit. Nowhere is the inhumanity of organized crime demonstrated more boldly than on these street corners. These criminal groups are destroying Mexico's youth.

Another dimension to this problem lies in the evolution of the drug trade as its center of gravity moved from Colombia to Mexico. In the United States, law enforcement efforts in the early 1990s increasingly shut down our ports to the drug trade, pushing the movement of cocaine from maritime to land routes through and across Central America and Mexico. By the end of the 1990s, four Mexican cartels dominated transit in Mexico: Sinaloa, Tijuana, Gulf, and Juárez. They competed for territory, but they drew limits on their brutality.

During this same time period, a new phase emerged in Colombia, which had dominated the cocaine trade. Plan Colombia entered full implementation. Extraditions became legal and quickly ramped up. Increasingly, Colombian kingpins found themselves behind bars in the United States, without phones and the ability to run their businesses from prison. Many began to cooperate. Colombian traffickers lost control of their routes. The Mexican cartels stepped in to control the cocaine trade from Colombia throughout the value-added chain into the United States. Consider this analogy: the trucking oligopoly had just gained control of the transit, wholesale, and retail trade as well.

By 2003-2004, the value of the market had jumped exponentially for the Mexican cartels, and with this so did the stakes. In the world of legitimate business, this type of displacement might result in mergers, acquisitions, takeovers, or new market entrants. In the underworld of criminal enterprises, it resulted in a surge of violence as rivals sought to kill each other for market share. When this wave of violence hit Mexico, there was no police or civil justice system to respond. After

decades of one party rule, Mexico was controlled through political patronage. The police accepted bribes, watched the violence unfold, and were co-opted into the cartel intelligence networks. Even if they had been “clean,” they had neither the weapons, training, nor authority to resist. Cartel violence was met with impunity.

What followed was a period of market alignments in Mexico that became increasingly brutal. A long-standing feud between the Sinaloa and Tijuana cartels broke into a full-scale battle in Baja California. In 2003, the arrest of Osiel Cárdenas weakened the Gulf cartel and led the Sinaloa cartel to challenge Gulf dominance in Nuevo Laredo, causing an explosion of violence that briefly shut the U.S. Consulate in Nuevo Laredo in 2005. The Zetas emerged as the paramilitary wing of the Gulf cartel. La Familia Michoacana announced its entry into the market by rolling decapitated heads onto a disco floor in 2006. In 2008 the Beltrán Leyva organization split from the Sinaloa cartel and aligned itself with the Gulf and Juárez cartels, provoking a new battle ground between the Sinaloa and Juárez cartels to control the most important crossing into the U.S. eastern and southern markets through Ciudad Juárez. Earlier in 2010, the split-up of the Zetas and the Gulf cartel made Nuevo León and Tamaulipas a new zone of violence.

Today’s drug market in Mexico is not what it was in the 1990s. Mexican criminal groups have become the kingpins. They control the trade in the hemisphere. For those who muse whether it might be possible to go back to the “accommodations of the 1990s,” when government forces looked the other way to the cartels’ illegal activities – that market structure no longer exists. It’s not just about drugs anymore. The cartels have diversified into other aspects of organized crime – extortion, racketeering, robbery, trafficking in persons, and kidnapping – the kinds of crime that now turn ordinary Mexican citizens into victims. Those who blame standing up to the cartels for the violence also misread the violence. The violence started with the cartels; the confrontations with organized crime are therefore a necessary part of a strategy to assert control over Mexico’s streets and stop the violence.

Add to these developments yet a third set of causes of violence in the drug trade and its expansion into other criminal activities: pressures on the market. The UN estimates that the global retail cocaine market was, in constant dollar terms, half the size in 2008 (\$88B) that it was in 1995 (\$165B). This drop in value was driven

in part by reduced demand in the United States, where there were half as many users in 2008 (5.3M) as in 1982 (10.5M), as well as by reduced supply thanks to declining production and more effective interdiction efforts in the U.S. and abroad. Estimates show U.S. consumption dropping from 660 metric tons in 1988 to 200 or fewer tons today. Unemployment and reduced personal wealth as a result of the current global economic downturn have further reduced demand for cocaine.

Stronger interdiction has also made it harder and costlier for cartels to get products into the United States, increasing the competition for plazas and border crossings they can control. The United States has increased Border Patrol and ICE agents on the border from 15,000-17,000 during the Bush administration, to over 26,000 agents working in the border region today. The FY2010 Supplemental Appropriation of \$600 million will support additional investments in law enforcement on the border.

Since President Calderón took office in December 2006, he has made clear that combating criminal organizations is his most pressing priority, and his government has acted accordingly. In 2007, Mexico and the United States formally launched a new era of cooperation under the Mérida Initiative which allocated \$1.4 billion for programs designed to counter the drug-fueled violence that has threatened citizens on both sides of the border. By 2009, Mexican Government efforts and cooperation under Mérida started to take root. We began sharing intelligence, developed vetted law enforcement units, assisted in training a more professional federal police force, and delivered non-intrusive inspection equipment and helicopters to increase the mobility and effectiveness of Mexican enforcement agencies. In the past year, Mexican officials have had unprecedented success in taking down major organized crime leaders. Beginning with Arturo Beltrán Leyva in December 2009, nearly a dozen more have been captured or killed in 2010. As Mexican and U.S. authorities improved intelligence and targeting, and as Mexican authorities made more and more serious hits, the battle with and among criminal groups has intensified and may still intensify even more.

Lessons Learned

One lesson we have learned is that Rule of Law matters. At present, 97.9% of crimes under local and state jurisdiction in Mexico go unpunished. The probability

that at the local and state level a suspect will even be detained in Mexico is 1.7%. The likelihood that charges will be brought against a person who commits a crime is 2.1%. At the local and state level in Mexico, the likelihood that a person who commits a crime will be indicted is 1.55%. The lesson we have learned in supporting Mexican government efforts to fight cartel violence is that nations, states and communities must invest in law enforcement to sustain the rule of law. Rule of law requires police who dissuade criminals with their swift responses, and it requires a civil justice system that puts and keeps criminals in jail.

Another lesson is that money matters. U.S. government agencies estimate that \$19 to \$29 billion are laundered annually between the United States and Mexico. At best, both countries capture a total of one billion dollars annually in bulk cash. That means that criminal groups have access to tens of billions of dollars which they can use to buy weapons and bribe officials in order to perpetuate their criminal activity. To cripple organized crime, we must cut off access to those vast sums of laundered money. If we fail to curtail these money flows, the confrontation with organized crime will generate more violence and more corruption.

A third conclusion is that the transnational nature of these criminal organizations requires regional cooperation. Throughout the hemisphere we find points of supply, demand, and transit that will continue to drive the destruction of the social fabric in both Mexico and the United States. We each have a responsibility to contain and curtail the sources of consumption, production, and violence embedded in the drug trade. We have a mutual self-interest in helping each other. As long as consumption exists, the drug trade can and will adapt its supply and transit chain to get product to its customers. As centers of supply and distribution relocate, so will the violence that accompanies organized crime. Regional cooperation is needed to ensure that every country in the hemisphere has enhanced rule of law programs to combat and confront the TCOs. We must leave them nowhere to operate with impunity.

Fourth, as the Mexican law enforcement and judicial systems more capably and aggressively go after these organized crime groups, we are likely to see the violence become more acute. We are already seeing that the violence is

increasingly directed toward authorities and innocent civilians as TCOs seek to be left alone and go back to impunity they have known.

Strategic Directions

The intense bilateral cooperation that we know today as the Mérida Initiative began when President Calderón recognized the grave threat to Mexico's national security and well-being posed by the expanding presence of transnational criminal organizations in his country. He enlisted the support of the U. S. Government under President Bush for a regional initiative to confront this challenge. After President Obama took office, our two governments undertook an intensive bilateral review from September 2009 through February of this year. In that review we focused on lessons learned and how best to move forward with our combined efforts. In March of this year, Secretary Clinton met with her Mexican counterpart Patricia Espinosa, and together they chaired a high-level group meeting that announced four strategic pillars for our cooperation.

The four pillars of our Mérida Initiative will strengthen both of our societies in the fight against organized crime and violence. Our first pillar aims to disrupt the capacity of organized crime to operate. We work across the board with Mexican institutions to help capture criminal groups and their leaders and reduce their revenues. We also support better investigations, successful prosecutions and shipment interdictions. The initiative's second pillar focuses on enhancing the capacity of Mexico's government and institutions to sustain the rule of law. The Mérida Initiative's third pillar aims to facilitate legitimate trade and movement of people while thwarting the flow of drugs, arms and cash. This provides the foundation for infrastructure and technology as well as modernizing land crossings, ports and airports. Finally, the fourth pillar seeks to build strong and resilient communities. But let's take a twist on the four pillars and look at them through a different optic, a time lens, in order to get a different perspective on our shared objectives.¹

¹ For more information on the Mérida Initiative, visit the website of the U.S. Embassy in Mexico City at http://mexico.usembassy.gov/eng/eborders_Merida_Initiative.html. See also the August 12, 2010, Keynote address by U.S. Ambassador Carlos Pascual at the El Paso Border Security Conference "Re-Envisioning The Border Community To Foster A U.S.-Mexico Partnership For Prosperity, Progress And Socio-Economic Development" at http://mexico.usembassy.gov/eng/Ambassador/A100702_Border.html.

The Long Term

Rule of Law at all Levels of Society

What needs to be done in the long-term is actually quite clear. Juárez is not the first city and Mexico not the first country to be faced with problems of violence. There are models that can be followed to control crime and rebuild society and those models all begin with rule of law. Without rule of law, criminals operate with impunity, business investment suffers, and the citizenry live in fear. With rule of law, intelligence is used proactively to prevent crime, criminals are arrested, prosecutions are successful, and criminals are jailed and taken off the streets. With rule of law, small businesses can flourish, free from extortion. With rule of law, large businesses have the confidence to invest, creating the jobs that offer Mexico's young people positive options for their future.

Building institutional capacity for the rule of law -- Mérida's second strategic pillar -- is crucial to long-term success. To date, the Government of Mexico has laid important foundations for success and the United States is supporting the Mexicans as they implement comprehensive reforms in Mexico's criminal-justice system through the professionalization of police and prosecutors, judicial exchanges, and partnerships between Mexican and U.S. law schools. As Mexico moves to pass legislation to reform its state and municipal police, we have committed to work together to build the training and vetting programs needed to create local police forces that people can trust, while continuing our efforts at a federal level.

Mexico is starting to train a new generation of police officers unlike any the country has ever seen. As of March 2010, 5,500 federal and state officials from all levels of law-enforcement and judicial agencies have participated in newly designed professionalization programs. Over 4,300 police officers have graduated from the Federal Police Basic Investigation Techniques course in San Luis Potosí and are now deployed throughout Mexico. These college-educated officers are the first of a new cadre of professional police officers in Mexico who will help transform the way crimes are investigated and prosecuted. But there is a long way to go -- across all levels, there are about 450,000 police in Mexico. We have taken just the first steps in what will be a decade-long process.

In 2008, Mexico passed a crucial constitutional reform to create oral trials and a more transparent legal system where all parties – from police to prosecutors to judges – are held accountable. Now every state and the federal government have to pass laws to comply with the constitution. In some areas, increased operational effectiveness is resulting in greater numbers of arrests in Mexico. But lack of familiarity with the new system and the lack of trust by witnesses willing to come forward for trials, means that many criminals are released for want of evidence and the ability to prosecute them.

To overcome these obstacles, U.S. support has expanded expert-to-expert exchanges, programs, and workshops between Mexican and U.S. criminal-justice professionals. These programs help professionals in both our countries work together more closely in combating organized crime. They are building trial advocacy skills, including evidence collection and preservation; improving extradition and fugitive apprehension; supporting witness protection; encouraging internal integrity; teaching advanced witness interview techniques; providing officer safety and protection; and using asset forfeiture tools. Together we are implementing the programs to build the skills Mexican investigators and prosecutors need to put criminals in jail and take back the streets.

Communities as Partners in Rebuilding Communities

Security cannot be an end in itself, but must be a condition that allows communities to achieve normalcy and prosperity. Whether in Medellín, Bosnia, Iraq, Afghanistan, or New York, families that have experienced high violence or crime have wanted not just a safer environment, but also to send their children to good schools, to travel freely, and to have dependable jobs. If security does not also improve quality of life, it is not seen as a benefit. Security programs must be integrated with social and economic programs, and success measured against social indicators – in addition to reductions in violence and crime. Medellín, Colombia is a powerful example where business and community leaders designed and implemented a strategy to restore civic life, and to engage the local population in winning back their security. As the community became more involved and took the initiative in engaging security officials, their ownership of the process created a perception that the police worked for them. That engagement started a virtuous

cycle where community involvement led to greater security, and greater security facilitated community engagement and a restoration of business activity.

Mexican communities need to believe that the police or security forces around them are committed to and are capable of protecting them before they can be expected to participate proactively in the rebuilding of businesses and neighborhoods. This process is now beginning. Civil society programs like President Calderón's Initiative, "*Todos Somos Juárez*", are gaining momentum and engaging local community groups on priorities to keep kids away from crime, create new role models, and lure others from violence. Community groups, like Red Juvenil are expanding their youth-led training programs and are proving that young people are willing to positively spend their time to help their community. Business groups like Paso del Norte and the Fundación de Empresariado Chihuahuense (FECHAC) are sponsoring job creation programs for young people that finish high school.

The challenge will be to channel this new but nascent base of community initiatives in ways that have a cumulative impact, so that communities can see their efforts make a difference. Taking the next step – to build from the satisfaction of doing good things to seeing that good things can work – is key to building a virtuous cycle where community engagement accelerates security success.

With safer neighborhoods, civic projects like building new schools, transit systems, and infrastructure projects can launch and create more jobs and make the economy more competitive. With support from USAID, Mexico has developed the means to issue state bonds that are backed by concrete investment plans. Already these bond issues have raised sums ranging from \$100 million to \$250 million in several states, repaid over 15 years at competitive rates. Combine that further with investments from the North American Development Bank, or the Inter-American Bank, or the private sector to develop a sustained promise of economic progress that will build strong and resilient communities in Mexico.

U.S. Demand Reduction

President Obama recognizes U.S. co-responsibility, as the largest market for Mexican narcotics, for the violence that plagues Mexico as a result of criminal

activity. It is that sense of responsibility that underlies the cooperation we extend in our international partnerships with Mexico and others. But we also recognize the need to do more at home. The Administration has therefore developed a National Drug Control Strategy that reflects a comprehensive approach to reducing drug use and its consequences. The Strategy calls for a 15 percent reduction in the rate of youth drug use over five years, and to meet that goal the Administration requested \$15.5 billion in anti-drug spending for this year alone. The Strategy seeks to strengthen community efforts to prevent drug use, integrate treatment into health care, and break the cycle of drug use, crime, and incarceration that plagues so many of our cities.

The Short Term

Intelligence-Led Operations to Disrupt TCOS Now

Performance in the short-term is harder than the long-term agenda. You need to work with existing security forces. The challenge is how to evoke better law enforcement. Violence is unprecedented, people are afraid, mayors are being killed. Only a small percentage of the police and judicial system are trained. The GOM faces pressures and expectations to deliver results and reduce violence. This is where Mérida's first pillar focuses – on disrupting the capacity of organized crime to operate.

In the short run, integrating intelligence with law enforcement operations is key to building citizen confidence that police and security officials are able to arrest criminals. Mexico has been piloting intelligence-led policing, where vetted units receive information and use that information to arrest key drug cartel leaders. And, the program is working. In the past year, Mexican authorities implemented successful high-profile operations. Major cartel figures such as Arturo Beltrán-Leyva, “El Teo” Garcia , Nacho Coronel, “El Grande” Barragan, and Edgar “Barbie” Valdez can no longer wreak havoc in Mexico.

This was the initial focus of the Mérida Initiative. Together Mexico and the United States focused attention on the heads of cartels – to demonstrate that they could not operate with impunity. Now the intelligence programs that led to these successes against cartel leaders must be expanded to local levels where information from community members – the people who know firsthand where criminals are hiding

– can help the police identify and disable safe houses, bases, weapons sites, and vehicle storage areas. Slowly but surely, intelligence-led policing will not only lead to the capture and arrest of TCO leaders, but will debilitate and disrupt the capacity of the cartels to victimize communities. By integrating intelligence and operations, officials will increasingly be better equipped to attack cartel operations strategically and with precision.

With such widespread violence, the difficulties of simultaneous implementation of sweeping law enforcement and civil society initiatives can be mitigated by strategically choosing where to start first. By selecting a small section of a state or city, officials can limit the complexity of implementing all the necessary and sufficient programs. The strategic selection of the best area(s) in which to work should be determined by both intelligence and mapping that analyzes crime and violence trends and cartel tactics. This allows both law enforcement agencies and civic organizations to implement the full force of their programming in a concentrated area that becomes a safe zone in the city. With demonstrated success in one zone, the zones can be expanded and connected, steadily increasing the areas in which the impact of cartel violence and crime is controlled and rule of law replaces intimidation and fear.

Attack the Entire Organization, not Just the Killers

As we accelerate the tempo of action, we need to increase our capacity to strip the cartels of the resources and arms that fuel their brutality. As noted earlier, the United States and Mexico capture about \$1 billion in bulk cash annually, and the U.S. Treasury Department has sanctioned hundreds of Mexican entities linked to the drug trade, but it's not enough.

Mexican and U.S. financial intelligence centers have been forging strong information links which became even stronger at a bilateral money laundering workshop held earlier this month. The group agreed on ten recommendations to advance bilateral efforts to combat money laundering and bulk cash smuggling. For the first time, we will target six money laundering cases – three selected by each country – for joint investigation and prosecution. The U.S. will expand its training support to Mexico in money laundering and asset forfeiture, including advanced technologies and techniques used in money laundering.

Also crucial is controlling the flow of arms that drug trafficking organizations use to confront authorities and to intimidate and extort citizens. Most of those guns flow south into Mexico from the U.S. side of the border. ICE and ATF are working jointly on weapons seizures through programs “Armas Cruzadas” and “Project Gunrunner.” Newly deployed non-intrusive inspection equipment is being used at key Mexican POEs to assist in the arms detection and ATF’s e-Trace is a searchable database that allows law enforcement agencies to monitor and trace firearms data. E-Trace is not just a database – it is a tool that can result in prosecutions and incarcerations of Mexican cartel members.

We saw an important result from e-Trace earlier this year, when a District Court Judge in Tucson sentenced the leader of a firearms trafficking conspiracy to 57 months. Other defendants, who had supplied 117 assault rifles and other weapons to the Sinaloa drug cartel, will serve more than 40 months. Fifteen of the guns were tracked through e-Trace, allowing ATF agents in Arizona to identify this trafficking group. The firearms were predominately assault-style rifles, including a .50 caliber rifle, and handguns known to be weapons of choice by the Mexican drug cartels.

Now, thanks to a new agreement signed in October, ATF has launched a Spanish language interface for e-Trace which will make this technology available to Mexican investigators to trace weapons known to originate in the United States. Mexican officials will be attending ATF-training training courses in the next two weeks.

Capturing Economic Potential

While the need to fight crime and improve citizen security has a very obvious, compelling urgency, we cannot let the security agenda distract us from the imperative to support Mexico’s economic growth and development. We need progress on both fronts in order to move together to create opportunity and break the cycle of poverty and violence. Our trade and investment relationship with Mexico continues its broad progress. Mexico is our number two trading partner and we are the largest source of foreign direct investment in the country. When President Obama received President Calderón in May 2010, we agreed to identify

barriers to progress in key areas, and work with the private sector to move forward on regulatory cooperation, the need for innovation and greater North American competitiveness and a more closely integrated energy policy.

Looking to the future, a key component of our global competitiveness is creating a border that positions Mexico and the United States to compete together in a global economy. I have spoken with U.S. businesses in almost every sector that have told me that integration with Mexico has allowed them to lower costs and compete in markets where they would otherwise be excluded. That means more jobs and exports for both the United States and Mexico. But it also means that the border must be efficient – to help reduce the cost of integration so that we increase our net competitiveness in global markets.

Building this 21st century border requires us to rethink long held concepts of what our common border is and should be. We have always thought of the border as a line separating two entities. Border security therefore meant strengthening that line, constructing stronger walls, and protecting one side from the other.

Modern technology allows us to re-conceptualize the border as something more than a juridical line that separates two countries. Our shared border is the entire set of activities that flow cross it. Over a million people legitimately cross the border every day. Over one billion dollars worth of legitimate trade crosses the border every day. The border does not just follow the river as it courses between El Paso and Ciudad Juárez. The border has one end in a strawberry field in Guanajuato and the other end in the fruit section of the Costco in Kansas City; and it includes everyone involved in the process from production to transport to sale.

We have begun work on the 21st century border by expanding existing and building new ports of entry. Multi-hundred-million dollar expansions are now underway at three key ports of entry – San Ysidro, Nogales-Mariposa, and the World Trade Bridge in Laredo. After a decade in which no new crossings opened, we opened a new port of entry at Anzalduas last December and are on track to open two other new ports of entry this year at San Luís II, and Donna-Rio Bravo. We are improving our processes to accelerate the movement of goods by increasing hours of operation at ports of entry and by double stacking customs officers on entry lanes. Trusted traveler programs such as SENTRI and non-

intrusive inspection equipment continue to expedite the flow of people. The reopening last April of designated student lanes at the Paso del Norte downtown crossing, and this year's announcement of our intent to open a new pedestrian crossing point between Tijuana and San Diego are further steps in expediting the flow of people.

What is most exciting and has the potential to be truly transformative are proposals we are studying to create internal ports. These would locate centers for customs inspection and clearance in places like Monterrey or Guanajuato – or potentially San Antonio or Phoenix. Once cleared, goods could then move along secure corridors across the border. This would free up processing at the border and relieve the infrastructure demands in border communities, allowing for faster crossings for everyone.

These efforts are still in early stages. When Presidents Obama and Calderón met in Washington in May, they issued a Joint Declaration on 21st Century Border Management. That declaration establishes an Executive Steering Committee (ESC) of senior representatives from both our countries. Their mission is both to break the many small logjams and to implement big thinking, like the internal ports concept, to implement the 21st Century Border. We expect the first meeting of the Executive Steering Committee to take place in November. It will be a major step forward in implementing the 21st Century Border.

Another strategic step will be to move toward common or shared standards for production. The more we can harmonize with Mexico on standards and regulations that satisfy the interests of both countries, the more we can integration production lines and reduce costs. In May, the Presidents created a High-Level Regulatory Cooperation Council (HLRCC) to guide a process of selecting products and sectors to target our efforts. The expected results: lower costs for consumers, businesses, producers, and governments; and improved capacity to protect the environment, health and safety of our citizens. The HLRCC is working on increasing regulatory transparency; providing early warning of regulations with potential bilateral effects; and help make regulations more compatible. We hope to expand this Council to Canada soon. Indeed, one vivid example of the need for regulatory cooperation is the fact that Canada, the United States, and Mexico all

have different standards for seat belts used in automobiles, even though our automobile industry is integrated in so many other ways.

Another promising growth area for cross-border trade is clean energy. Mexico has an aggressive goal of reducing greenhouse gas emissions by 50 percent by 2050, and U.S. companies can play a supporting role in helping Mexico achieve that target. The U.S. Embassy has hosted and will continue to host trade missions of U.S. companies looking to sell green technologies. Interest in cross-border trade in renewable energy is growing and there are already a number of success stories, such as Export-Import Bank's \$102 million loan to Clipper Wind Power to export wind turbines to Mexico. As part of the project, Walmart will purchase about a third of the power generated to supply electricity to 348 of its facilities in Mexico, which will avoid emission of more than 130,000 metric tons of greenhouse gas per year. Today, Mexico is EXIM's largest customer in the world – with an exposure of about \$8 billion – and PEMEX is the largest customer in Mexico. By financing U.S. oil and gas technology, the United States has helped Mexico halt the decline in oil production and introduce sound environmental practices that extend the life of oil wells. The U.S. benefits by sustaining the productivity of our third largest supplier of oil.

Common Interests, Shared Responsibility

As we support Mexico in facing the crossroads before it, several things are clear: Mexico's economic development and its security needs must be addressed together, with integrated strategies that acknowledge the interactive nature of these challenges. Strengthening the rule of law is critical to restoring security, and security is crucial for competing successfully in a globalized economy. Organized crime must be dismantled so that investment flows will increase and more jobs will be created.

We have seen that the threats -- and the opportunities -- are transnational, inviting us, indeed, obliging us to work together.

This is a moment of opportunity. Incentives for investment and risks that can drive it away are side by side. It's important to act on this moment to take advantage of

economic opportunity – and to use economics to define the course on the crossroad of security, and not let insecurity be the driver of economic realities.

With Mexico once again at a historic juncture, I feel optimistic that it has framed its challenges correctly and is taking important steps to take advantage of the great opportunities that lie ahead for it.

The Obama Administration has similarly committed itself through the Mérida Initiative and the other security initiatives that I have described, as well as through our many joint economic initiatives, to support Mexico in its efforts to build institutions, establish a strong rule of law, and to combat organized crime as a necessary step to increasing economic well-being. We are all in this together since our mutual security and prosperity depend on Mexico's success.