

# Illicit Networks

## Rethinking the Systemic Risk in Latin America

BY IVAN BRISCOE AND PAMELA KALKMAN

**C***riminals dressed up as Rulers: Out!* read one of the signs brandished by protesters who have returned time and again to the streets of Guatemala during a wave of corruption scandals in the Central American nation.<sup>1</sup> Borrowing from previous episodes of public indignation against graft in government from Mexico, Brazil, or much further afield, and prompting in its wake an unprecedented series of demonstrations in neighboring Honduras, the Guatemalan protests are directly linked to the exposure of illicit activities located at the commanding heights of the state. Primarily the work of a UN-led investigative commission, the revelations began in April with the first arrests linked to a customs racket that plundered an estimated \$325,000 a week.<sup>2</sup> This was followed soon after by cases of embezzlement and money laundering in bodies across the Guatemalan state and political system, leading to a string of indictments against the country's once untouchable elite. Among them stand the president and vice-president, both of them charged and imprisoned while still serving in office, as well as the former head of the tax service and the former head of the Central Bank.

A charge-sheet of this sort suggests not merely that some holders of high office were seeking illegal material gain; nor just that they were conspiring to do so in corrupt conclaves. Instead, as the protester's placard suggested, the various cases uncovered by the Commission Against Impunity in Guatemala (CICIG) indicate that the core apparatus of the state system and its most basic services – not just the long corrupted National Police, but Congress, taxation, and elements of the financial system – had become protected spaces in which political appointees could exploit the law and their mandates for personal and factional advantage. The law of the land, in short, had become a gift and a goldmine for criminal endeavors.

The eventual consequences of the current Central American thaw are as hard to foresee as its recent equivalents in the Arab world or Eastern Europe, not least because of the isthmus' long

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history of rapidly aborted democratic awakenings. However, the potential impact of these cases stretches far beyond any immediate political shifts or potential counter-reformations. At their core, the scandals in Guatemala, or the ire in Honduras over an estimated \$300 million embezzlement of social security to fund political party spending (among other things),<sup>3</sup> challenge the predominant understanding of the crises, threats, and developmental concerns facing Central America, as well as other parts of Latin America.

For over a decade, the Central American publics, their political leaders, and the international community have broadly agreed as to what are the main menaces affecting the

region: flourishing drug trafficking routes;<sup>4</sup> crime rates that place Guatemala, Honduras and El Salvador in the top eleven countries in the world in terms of their lethal violence;<sup>5</sup> and, as a result, the mass exodus of child migrants to the U.S. border.<sup>6</sup> Instead, it would now appear that the violation of the law is a far more complicated and systemic phenomenon than the common understanding of criminalized groups or mafias involved in trafficking rackets and terrorizing local populations. Of course, rates of violent crime remain alarming; in El Salvador, murder rates have recently touched a post-conflict high.<sup>7</sup> But the public outcries of recent months underline the fact that the identification of criminal enemies



Hundreds of thousands of people across Latin America have recently protested against the corruption and scandal in their countries in demonstrations that have sometimes rallied many tens of thousands at a time. Here, Guatemalan protesters petition for the resignation of the President. This protestor's sign reads, "I Don't Have a President."

and criminalized spaces, and the sense that they can be fought by the state and security forces as they currently stand, involves a profoundly mistaken conception: the legal order and illegality are not binary opposites.

This blurring of frontiers between law and illegality now poses acute dilemmas for every effort to contain the security crises that threaten Central America, and which spill over to various other countries, including the United States, through flows of drugs, arms, and migrants. Both Honduras and Guatemala have recently been ruled by presidents who have drawn support from the use of a long-established policy trope: *mano dura* (iron fist) measures to combat crime, complemented where necessary by states of emergency and deep military involvement in internal security, often with U.S. backing. These approaches have long been questioned over their effectiveness. But recent scandals suggest that the entire theoretical apparatus to support them rests on a dubious foundation: the idea that security policy can be a technical exercise in hardware and capacity-building, divorced from ubiquitous political influences whose commitment to legality is largely based on exploiting the law rather than applying it.

Broader issues of state legitimacy and stability are also at stake. The interweaving of criminal, business, and political interests at all levels of the state is publicly acknowledged across Central America, but has also had grave effects on several of the most important large Latin American countries. In Argentina, Mexico, and Brazil, scandals have highlighted the links between crime and parts of the political elite.<sup>8</sup> The disappearance of 43 trainee-teachers in Iguala, Mexico in September 2014 – with the collusion of local police, political authorities, and possibly even national security

forces<sup>9</sup> – has sparked huge anti-corruption protests across the country, as well as international rebuke. The recent jailbreak of the Sinaloa Cartel leader reinforced the typecasting of the Mexican state as a willing collaborator in crime. The region's powerhouse, Brazil, is now raking through the biggest corruption scandal in its history, implicating numerous members of the ruling Workers' Party and allies in the taking of bribes in return for lucrative contracts with the state-owned oil company, Petrobras – bribes that were made possible by mechanisms of state-led development that appear to have been captured by political and business elites. Combined with an economic crisis, the effect on President Dilma Rousseff's second term in office has been dire: a poll in July 2015 found that 62 percent of those surveyed wished to see her impeached.<sup>10</sup>

As a result, the legitimacy not just of transient political leaders but of core public institutions has come under threat. A recent survey showed that in Latin America "levels of trust in political and social institutions are generally falling, with the Catholic Church and the Army most trusted, and political parties the least. Of all institutions trust in elections suffered the greatest decline between 2012 and 2014."<sup>11</sup> One global survey shows that while in most countries the judiciary is seen as a positive influence, in Argentina, Brazil, and Chile fewer than three in ten give it a positive rating.<sup>12</sup>

Whether the concern is the terrible violence suffered on the streets of Central America, the illicit goods trafficked across the region, or the prospect of powerful states facing severe legitimacy crises, the presence of illicit networks in the state – and, in a mirror-image, the state-like and business-like characteristics of organized criminal groups



– challenges almost every preconception as to how to bring security and stability to the region. As a means to guide thinking on how these issues may in future be approached, this article aims to reconstitute an understanding of how the illicit nexus connects state and non-state actors in Latin America, and what this might mean for future national and international policy. To do so, it first explores what exactly we mean by criminalized spaces and by illicit networks.

### Criminalized Spaces

Most Latin American countries contain remote, rural territories marked by high levels of informality, and coercive and patriarchal forms of leadership (the so-called *caudillos*). Some such areas, which historically have been characterized by a lack of formal state control, have emerged into centers of organized crime and transnational trafficking. Often far removed

from the capital and close to borders, criminal groups – sometimes in allegiance with local authorities – are free to operate quasi-state protection rackets defending illicit activities such as (but not limited to) the production and trafficking of drugs, above all cocaine, as well as of arms, humans, and natural resources. Money laundering in these contexts has become a motor for the general economy.

Some of the regions that are today reputed to be major centers of illicit activities were once remote places colonized by peasant farmers in search of land and fortune, such as the Intag region in Ecuador, the Petén region in Guatemala, the Amazonian province of Madre de Dios in Peru, or regions along the so-called agricultural frontier in Colombia, such as Putumayo or La Guajira.<sup>13</sup> Certain localities in these areas are now synonymous with the iron grip of organized crime. The Mexican city of Tenosique, in the state of Tabasco not far from



Reinhard Jahn, Mannheim

Ferry hauling goods and people across the river in the Guatemalan state of El Petén.

the Guatemalan border, has now fallen under the effective control of local criminal groups allied to the Zetas cartel.<sup>14</sup> The tri-border area between Paraguay, Brazil, and Argentina is a meeting point of cocaine smugglers, marijuana producers, and traffickers of goods and people. In 2012 the homicide rate of the Brazilian border city of Foz do Iguaçu was three times the national average.<sup>15</sup>

Yet it is important to note that not all criminalized areas are marked by homicidal violence. In some places, the dominant organized crime groups have been able to make relatively stable arrangements among themselves, as well as with local officials and people: a *pax mafiosa*. Often this occurs in areas where citizens do not regard illicit activities as criminal. This is the case for the contraband convoys between Bolivia and Peru, whose support networks spread deep into communities and local authorities, and whose representatives have acquired seats in the national Congress. In the main regions from which migrants leave Guatemala, El Salvador, and Honduras, smugglers of humans, known as *coyotes* or *polleros*, have long been regarded as a benign influence: “not a criminal but a benefactor,” according to one expert on Guatemalan migration patterns.<sup>16</sup> The legitimacy of coca growing is of course a constituent of social and political life in parts of Andean Peru and in Bolivia.

Criminal control is not restricted to remote rural areas. Urban hubs are crucial strategic locations, especially when they have strong trading links and provide supportive networks (inside and outside the state), access to weapons and specialized labor services. Clusters of rival criminal actors, however, tend to expose these densely populated areas to peaks and troughs of intra-cartel violence.<sup>17</sup>

Major centers of international trade such as Buenaventura, on the Colombian Pacific, or Rosario in Argentina, are the most violent sites in their countries, largely due to strong links to drug trafficking. Yet, as the cases of the Mexican border town Ciudad Juárez or the favelas in Rio de Janeiro demonstrate, episodes of violence with profound effects on local communities can suddenly come to a halt – sometimes when one criminal group has established its dominance, and managed to make some kind of working arrangement with the local authorities.

For instance, local experts in Ciudad Juárez argue that the sharp drop in violence is prompted by an informal pact between the Sinaloa cartel and factions of the federal police and army, not unlike the “peace deal” that governed Medellín under the paramilitary leader “Don Berna” between 2003 and 2008.<sup>18</sup> Under such circumstances, the peace is experienced as a real reduction in violent and petty crime, but one that rests on the consolidation of an intrinsically coercive form of leadership, with often very fragile foundations of trust between different criminal factions. The El Salvadoran journalist Oscar Martínez’s remarks about the border towns of northern Mexico are illuminating in this regard: “Narco-controlled neighbourhoods are calm, and seem calm. Until they’re not, and then they explode.”<sup>19</sup>

It is nevertheless impossible to generalize about criminalized urban areas across Latin America. In marginalized parts of the capitals of Honduras and El Salvador, the main local gangs, which are often part of Barrio-18 and MS-13, tend to exert control over all aspects of daily life and extract protection incomes (the so-called *impuesto de guerra*, or war tax) from community members. Their power rests upon a deeply coercive, local presence, in which a

large number of people depend upon their illicit revenues (up to 400,000 people in the case of El Salvador), or on identification with the gangs' rejection of mainstream society. However, their activities do not tend to include particularly lucrative ties to transnational trafficking or high-level political authorities.

At present, the effort to extend extortion rackets into ever-wider areas of public life is believed to be responsible for the murder of between three to five taxi drivers each month in Honduras.<sup>20</sup> One interviewee from a Honduran NGO reported that in Tegucigalpa "certain groups even control what women wear, what colour their hair should be, to be able to differentiate them from women that cooperate with another group."<sup>21</sup> Other common sites of extortion in both rural and urban areas include public transportation, schools, community centers and hospitals.<sup>22</sup> For instance, one hospital in the Honduran city of San Pedro Sula, the most violent city in the world, was occupied by militarized police last year after reports emerged of multiple rackets and organ-selling in the medical establishment.<sup>23</sup>

### Embedded Crime and Coping Strategies

Remote rural zones, urban and major commercial centers, and peri-urban protection economies make up the main spaces of concentrated criminal territorial control in modern Latin America. At the same time, the strength of criminal groups of all descriptions can almost universally be paired with the state's failure to provide for its citizens' basic needs – or to the state's indifference to huge differences in service provision and in access to economic opportunities. Even when local communities live under the constant threat of violence and extortion from organized crime (as in El

Salvador), their perception of state actors, most notably security forces, tends to be shaped by the experience of neglect and by high levels of distrust. Efforts to reinforce formal state presence in such areas, above all in urban zones, flounder when they fail to recognize the suspicions and doubts people harbor towards any manifestation of public authority. As Vanda Felbab-Brown has argued, "if the community has previously experienced primarily negative manifestations of the state-violent repression against criminal groups, suppression of illegal economies with no provision of legal livelihoods, or social stigmatization – it will be deeply mistrustful of greater state presence."<sup>24</sup>

In fact, local crime bosses often prove to be quite popular. A recent International Crisis Group report, for instance, found that in a Guatemalan border town in the state of Zacapa, citizens were still unhappy about the 2011 arrests of prominent members of Waldemar Lorenzana's narco-trafficking organization. Ever since their arrests, Zacapa residents report that jobs – previously generated by the family's fruit-export business – have disappeared, as well as the family's local charitable work, such as support for a health clinic that gave free care to the poor.<sup>25</sup> Most recently, the spectacular prison escape of Mexico's most notorious criminal and head of the Sinaloa cartel, Joaquín "El Chapo" Guzman, was celebrated on social media by Mexican citizens, with tweets admiring him "for letting the world know that the poor matter too," and asking the Sinaloa cartel "to continue to take care of the country and of all Mexicans."<sup>26</sup> His escape also inspired a new and popular *narco-corrido* (a song that celebrates drug traffickers), welcoming him back to the people and

celebrating the mafia's importance to the political and economic stability of Mexico.<sup>27</sup>

Numerous other cases of popular acclaim for criminal bosses and their activities, above all in remote, rural areas with few other economic outlets and a penchant for charismatic outlaws, have been reported across Latin America. In 2014, Peruvian citizens elected at least six governors under investigation or facing charges for crimes ranging from money laundering and extortion to drug trafficking.<sup>28</sup> The former mayor of the Mexican town of Iguala, José Luis Abarca, is now under arrest for his part in the notorious disappearances and murders of last year. Even so, he served as the elected mayor of a major national political party for two years, despite accusations of his direct participation in the torture and murder of activists, and his wife's family ties to the Beltrán Leyva drug cartel. "He showered supporters with his largesse – paved streets, drainage pipes, and so forth – using money whose source was a mystery."<sup>29</sup>

Money accumulated by criminal activities can pay for an electoral campaign, bribes, and public services. Another reason repeatedly underlies people's support for "strong men" with suspected criminal links: the popular belief that it takes a criminal to effectively combat crime.<sup>30</sup> Alternatively, in some areas either beyond state control or where local authorities fail to provide security, citizens also take up arms to protect themselves from the effects of organized crime, only to find themselves embarking upon a similar pattern of coercive social control. According to Wil Pansters, in the state of Michoacán local farmers started to organize themselves in self-defense forces to combat the presence of drug cartels in their region. However, over time these forces came to operate as cartels

themselves, after which they were co-opted into official security forces, the so-called *fuerza rural*, to neutralize their increased power.<sup>31</sup> In Bolivia, Guatemala, Mexico, and Peru, meanwhile, citizens are known to take justice into their own hands when confronted with local criminals. According to a public prosecutor of Cochabamba, in central Bolivia, "there is a macabre ritual in which the suspect is dragged to the town square, where the lynching takes place... It often ends with the person being burned alive or hanged."<sup>32</sup> Crime rates in these rural, often indigenous-populated areas, may well not be nearly as high as in urban areas or strategic trafficking zones. But the willingness to resort to these methods is an eloquent expression of how a long history of violence and of limited or repressive state presence may foster a collective outlook that tolerates coercion as a satisfactory means of dispute resolution.<sup>33</sup>

### Illicit Networks and the State

The historical roots and sheer variety of Latin America's criminalized or non-state spaces are remarkable. Yet the recognition of this multiplicity, combined with an appreciation of the many security threats faced by the region—according to 2012 data from the UN Office on Drugs and Crime (UNODC), Latin America is the most violent region in the world, accounting for nearly one in three homicides around the world<sup>34</sup> – does not translate into the most commonly stated and supported public policy response. This response was given its most succinct expression in the Democratic Security Policy unveiled by Colombia's former president, Álvaro Uribe, in 2003: "A strong state structure, supported by citizen solidarity, guarantees the empire of the law and the respect for rights and freedoms."<sup>35</sup>



To understand the dynamic organizational mutations and broader support networks within these criminalized spaces as somehow antagonistic to the actions of state authorities, both locally *and* in the central state, ignores a vital historical detail. In most parts of Latin America, expansive, organized criminal activity did not flourish in the shadow of a hierarchical criminal cartel or via a popular culture of banditry, but arose instead in states that controlled a significant share of the illicit activity.<sup>36</sup> Such states have been described by Moises Naím as mafia states, where “government officials enrich themselves [...] by exploiting the money, power, political influence, and global connections of criminal syndicates.”<sup>37</sup>

Numerous examples attest to the crucial role played by the state coordination of crime over the course of 20<sup>th</sup> century Latin American history. Under former President Alberto Fujimori and his head of intelligence, Vladimir Montesinos, Peru was governed in the 1990s according to a logic of private extraction and the elimination of dissent. While the government income from various corruption rackets has been estimated at \$600 million, Fujimori and Montesinos also made arrangements with drug trafficking groups, which provided funding to the government in exchange for the assurance they could act with impunity.<sup>38</sup> The case of Guatemala is also notorious. During the country’s long civil war, army officers are known to have made arrangements with local politicians and crime bosses, who provided intelligence on the armed insurgency in exchange for political favors and a general permissiveness towards illicit activity that extended towards complicity with state officials.<sup>39</sup> Interestingly, the customs racket that has recently been exposed in Guatemala was itself preceded in the 1990s by the revelation

of a very similar case of fraud, the so-called Red Moreno, which had been hatched in the later years of the civil war, and was run by senior military officers. It has been noted that one of the main operators of the current racket was deeply involved in the previous version, supposedly dismantled 19 years earlier.<sup>40</sup>

The list of cases showing the state’s involvement in the genesis and evolution of large-scale organized crime is extensive. During the Cold War, the governments of Panama and Bolivia were at one stage notorious for their arrangements with organized crime. Mexico, meanwhile, provided a telling example. Under the long hegemony of the Institutional Revolutionary Party (PRI), the governing party used its monolithic political control over a hierarchy that spanned the presidency, the senior echelons of the security system, state governors, and local authorities to favor mutually beneficial arrangements with criminal organizations.<sup>41</sup> Moves to democratization, political fragmentation, and the restructuring of state institutions brought an end to these coexistence arrangements between the state and organized crime. Freed from their “protection” by the central government and its local representatives, criminal groups were able to multiply and compete, using ever greater levels of violence in a marketplace with no supreme arbiter, in which both the police and the justice system were going through a complicated process of restructuring. Meanwhile, local authorities and their security forces were prepared to reach an agreement with whichever criminal group made the best offer.

Other states, such as Colombia and Ecuador, were not characterized by this sort of state-coordinated criminality, but this does not mean that state actors and other elites were not deeply involved in illicit activity on an



individual or factional basis. In Ecuador, the fiscal and political crises at the end of the 1990s gave way to multiple opportunities for the infiltration of illicit networks, such as the notorious short-lived presidency of Abdalá Bucaram. In Colombia, drug trafficking has long been connected with favors and support from parts of the state, as well as attempts by leading traffickers such as Pablo Escobar to transform themselves into political representatives. Yet the apotheosis of these relations was only reached once the ongoing armed conflict, coupled with political fragmentation and economic crisis, fostered the creation of opaque networks of politicians, security forces, and organized crime. The effects of these combinations were eventually made apparent through the so-called “parapolitics” scandal, for which

199 deputies and senators were charged for links to the paramilitary by 2012.

It may appear at first sight that a strong illicit connection between a remote trafficking zone and a politician in national Congress is improbable, or costly and risky to maintain. However, a crucial part of these networks tends to be played by intermediaries who have close links to both the political elite in the capital, as well as to local politicians and criminal groups. An example of exactly this sort of brokerage between local criminal spaces and central power can be found in the recent case brought by the CICIG against the vice-presidential candidate on what was Guatemala’s leading ticket, and former central bank governor, Edgar Barquín.<sup>42</sup>

Barquín is accused of being the central hub of a network led by businessman



Government of Guatemala

Edgar Barquín (right), then governor of Guatemala’s central bank, with Guatemalan President Alvaro Colom (center), and Alvir Alberto Hoffman (left), President of the Association of Supervisors of Banks of the Americas.

Francisco Morales, also known as “Chico Dolar,” which used more than 200 front companies to launder a total of more than \$120 million over a five-year period, in settings as diverse as China, Hong Kong, Taiwan, South Korea, the Cayman Islands, Colombia, Brazil, Turkey, France, and the United States. According to the CICIG, while he was head of the Central Bank of Guatemala, Barquín advised Morales how to report his company finances, and ensured that he would not be subject to any financial investigations. He also promised to arrange private meetings between Morales and the head of the Guatemalan Financial Analysis Unit (known as the IVE), which is responsible for the investigation of money laundering. He was aided in this enterprise by his brother, Manuel Barquín, a Congressional deputy for the Líder party (for which Edgar was the vice-presidential candidate in this year’s elections), who allowed the offices and personnel of Congress to be employed for the money laundering activities of Morales’ network. In return, part of this money helped to finance local political campaigns.

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It was the local branch of the network where the money was made. The network operated in the municipality of Jutiapa, and in other regions along the Guatemalan border

with Honduras – one of the most important narco-trafficking zones in Central America, and one of the country’s most violent areas.<sup>43</sup> Cash was collected in U.S. dollars from a number of people and groups.<sup>44</sup> According to Iván Velásquez, the head of CICIG, mayors and district deputies played crucial linking roles between the networks collecting the cash and the broader support organization as it was consolidated in national state authorities and international finance. These networks, Velásquez explained, “allow local politics to influence national politics, and are the centerpiece for illicit financing.”<sup>45</sup>

### Money, Politics, and Crime

The reasons for the persistence and expansion of illicit networks such as these, and their ability to connect criminalized localities with the supposed sanctums of law and the state, are to be found in a number of developments that have characterized Latin America during the past decades.

First, and most obviously, stands the exponential rise in the income of organized crime, generating in turn the urgent need to launder larger piles of dirty money. According to the UNODC, in 2009 the total income of transnational organized crime amounted to \$870 billion – an amount equal to 1.5 percent of global GDP, although the figure is highly contestable.<sup>46</sup> According to the U.S. Justice Department, Colombian and Mexican cartels alone earn between \$18 and \$39 billion a year from drug sales in the United States.<sup>47</sup>

Second, the diversification of criminal activities and their change in structure from national and hierarchical family-led networks to globalized horizontal networks has led to a greater need for political and state cooperation in criminal endeavors.<sup>48</sup> Whereas organized

crime groups tended in the past to be focused on one activity, such as cocaine trafficking, many criminal groups have expanded their range of “expertise” to include, among other activities, human trafficking, migrant smuggling, arms trafficking, kidnapping, extortion, money laundering, and trafficking of marijuana and amphetamine-type substances. Moreover, global transport and telecommunication networks have made possible the expansion of criminal connections to other continents, and cooperation between Latin American-based crime groups and others located in West Africa, Asia, and Europe. According to anti-corruption expert Edgardo Buscaglia, “investigations by the European Union, Canada, and the United States show that the Sinaloa cartel has a presence in 48 countries over the world, and is still expanding.”<sup>49</sup> This diversification means that many more actors are involved, if only on an occasional basis as specialist service-providers, while the need to bribe or enlist border officials, airport personnel, local mayors, and other criminal groups for access to territory has correspondingly increased. In Colombia, the criminal organization that appears to have become the most recent dominant player in the transnational cocaine trade, the Úsuga Clan (also known as the Urabeños), is reported to have co-opted 600 public officials alongside taxi-drivers, religious leaders, school teachers, and community leaders, all of whom are paid regular monthly retainers.<sup>50</sup>

Organized crime, therefore, has grown, diversified, and progressively outsourced. Meanwhile, the role of private money in public life has gained far greater prominence in Latin America due on one hand, to the rise in the competitiveness of elections, and on the other hand, to the weak enforcement of campaign

finance rules.<sup>51</sup> Elections are more competitive than ever in a region where democracy, despite its imperfections, has become firmly entrenched: opposition candidates won more than half the 43 presidential elections in 18 countries between 2000 and 2010.<sup>52</sup> During election times, more money naturally translates into greater opportunities to woo voters through campaigns, including television commercials, road signs, and party hand-outs, or simple bribes.<sup>53</sup> The increased competition has meant that campaigns have become more expensive, while political aspirants are acutely conscious of their need for a war-chest. At the same time, the lack of, or weak enforcement of political finance regulations in Latin America, and the world in general, means that money of dubious origins encounters very few problems when entering political party or a candidate’s accounts. In fact, a 2012 report by International IDEA found that most countries apply no quantitative limits to private donations to political actors at all.<sup>54</sup> Even if countries do apply donation limits, or spending caps, the study found that most of them have little effect. A 2014 evaluation report on the campaign costs of the most recent Senate elections in Colombia, for instance, found that on average a campaign costs four times the legally permitted amount.<sup>55</sup>

A high tide of money across the political system need not mean that illicit finance, and thus organized crime, enjoys greater influence over political actors: much depends on the strength of watchdogs and the activism of the judicial system. However, the evolution of political competition in Latin America has strongly encouraged illicit use of the expanding and poorly controlled avenues of political finance, and not merely because of greater opposition success at the ballot box. The

various economic and political crises of the 1990s devastated traditional political parties in many countries in the region, leading to the rise of new parties, often based on charismatic leaders with populist messages, and to an extraordinary turnover in incumbents. For instance, in Peru, only 18 percent of the members of Congress were re-elected in 2011, while in Guatemala, nine of the ten parties that took part in elections that year had been in existence for under a decade.<sup>56</sup>

The prominence of fragmented parties with little ideological baggage and a minimal organizational structure has in turn generated two effects. To start with, it has exacerbated a party's dependence on flows of local or regional votes, which sometimes involve agreements with regional figures whose political and economic power emanates from dubious sources. At the same time, the fragmentation

has undermined internal party structures of control, loyalty, and discipline, which has permitted individuals at the local and national levels to use politics to develop a sphere of influence that can be exploited on behalf of private interests. Outside a few countries such as Chile and Uruguay, parties have come to resemble precarious associations of mutual benefit between a metropolitan core, built around its leader, and a variety of self-funding individual politicians in the regions. Parliaments for their part have consolidated their role as increasingly powerful, but corrupt organizations within state structures where "clientelist, personal, political, and criminal interests intermingle, and where everyone exploits the institutional architecture."<sup>57</sup>

It is no coincidence, therefore, that the most significant cases of illicit networks that have been exposed recently in Latin America



Michael Flashman

Protests outside HSBC in New York after senior bank officials admitted laundering billions for drug cartels and terrorist organizations. (Feb 2013)



– Brazil’s Petrobras, the recent Honduran and Guatemalan scandals, the Iguala case in Mexico, and, though a few years earlier, the Colombian parapolitics scandal – involve corrupted or infiltrated political parties, or criminal operations in which transactions with members of the national Congress stand at their very core. Monetized politics may not itself be corrupt, though it is liable to be unfair and inequitable; but high-money politics without proper supervision and with a fluctuating roster of opportunistic political parties has led in Latin America to numerous illicit combinations between the local and central level.

Once again, the Barquín case shows how, through such political intermediaries, local criminalized municipalities are directly linked to the country’s political and economic elite. At the same time, this nexus is facilitated by opportunities for money laundering on a global scale through the use of front companies and tax havens, made possible by bank secrecy norms and the lack of transparency in international financial institutions. As a result, a leading global bank such as HSBC was able to launder as much as \$881 million for Mexican drug cartels; even though found guilty by U.S. law enforcement, it avoided criminal prosecution by paying a record fine of \$1.9 billion. Other financial institutions that have failed to apply anti-laundering restrictions to large-dollar deposits from cartels are Wachovia Bank, Bank of America, and Western Union.<sup>58</sup> Furthermore, while many countries have signed up to multilateral anti-corruption agreements meant to combat money laundering, such as the United Nations Convention against Corruption (UNCAC) or the Financial Action Task Force (FATF), a 2012 assessment revealed that these have a very limited impact on state compliance.<sup>59</sup> According to Buscaglia,

of the 108 countries that have ratified UNCAC, 86 percent are complying only in theory.<sup>60</sup>

### Common Weaknesses and Shared Interests

The growth of organized crime in combination with weak or non-existent controls over political finance in ever more competitive democratic environments is crucial to understanding the transmission mechanisms that link criminalized territories to the central state. However, it would be a mistake to view these connections simply as the rise in influence of a criminalized periphery over an otherwise innocent and untainted public sector. We have already seen how organized criminal networks themselves developed and grew under state guidance in many Latin American countries, notably Mexico, Guatemala, and Peru. It is important to add that both local territories and the central state have been jointly exposed to a number of influences and incentives deriving from the economic reforms and democratization processes that have affected the region over the past two to three decades. These have generated more representative governments and improvements in macro-economic management. But they have also helped to create a series of common interests that are inimical to more rigorous judicial controls and more effective law enforcement.

In particular, the high tide of economic reform processes in Latin America – often termed neo-liberalism or the Washington Consensus, and exemplified by Chile in the 1980s, and Mexico and Argentina in the 1990s – did not always achieve the goals of liberating the private sector from unwarranted and inefficient state interference. In many, if not most cases, these reforms instead served to weaken the state apparatus designed to guide national

economic development, only to replace it with a much more extensive set of informal links between political elites and an emboldened private sector. The privatization process undertaken by the government of President Carlos Menem in Argentina is emblematic of this particular interpretation of economic reform.<sup>61</sup> Although it was portrayed to international financial institutions and creditors as an effort to dismantle rent-seeking state enterprises in energy, electricity, telecoms and transport, it in fact offered the government the opportunity to support favored businesses, engage in numerous fraudulent rackets, and eventually amass a debt burden that prompted the country's bankruptcy and default in 2001. Since then, Argentina has been unable and unwilling to return to international credit markets.

The preceding analysis has identified monetized political competition and representation as a core constituent of Latin America's major corruption scandals. A second way of understanding this abuse of public power is through the informal spaces of contact and favoritism that have been fostered between the private sector and political elites under the influence of economic reform and political change. This proximity was particularly evident in Brazil's Petrobras scandal, in which investigators have established that a cartel of 16 major businesses allocated among themselves massive infrastructure projects for the state oil firm on the understanding that between one and five percent of the contracts' value would be paid in kick-backs to company officials and politicians: the total value of the corruption is believed to exceed \$3.5 billion.<sup>62</sup> Numerous cases of illicit procurement (such as the case of the Bogotá road-building scandal of 2010), or the many scandals over the use of political connections to gain favorable financial credit

(including the recent case involving Chilean President Michelle Bachelet's son), jobs, or special judicial treatment, indicate not just that the political class is predisposed towards exploiting public power for its private benefit. In certain cases, this readiness by politicians and state officials to take advantage of their public power is believed to extend into a form of complicity with organized crime and criminalized territories, since both the central-level politicians and local criminal organizations share a common interest in the perpetuation of weak judicial controls and oversight.

This relationship of shared interest is extraordinarily difficult to prove and to measure. One politician in Ecuador described the relationship between politicians and money-laundering narco-traffickers as "lucrative permissiveness."<sup>63</sup> The fiercest critics of the Mexican state, meanwhile, regard the political establishment as an accomplice to the country's criminal organizations due to its reluctance to engage in any serious reform of the police or legal system, or to introduce genuine mechanisms of public transparency. According to Mexico-based law professor John Ackerman, for instance, "the central problem in Mexico is the profound lack of accountability of the political class and government institutions to the people."<sup>64</sup>

These accusations reach far beyond identification of concrete, profit-sharing links between state officials and criminal organizations. Instead, they point to a systemic form of collusion that brings together, on one side state structures predisposed to generating private profits, and, on the other, criminal organizations that are often based in territories whose marginalization and inequalities have been exacerbated by the very same processes of economic reform and global economic

integration that have fostered certain forms of state-level fraud. Although such alleged complicities certainly do not account for all the examples of political-criminal relations in Latin America, they have managed to generate the most ardent criticisms of the state's legitimacy, above all in Mexico, Guatemala, and Honduras. Furthermore, such complicity poses the greatest challenges as regards a response to criminal organizations and criminalized territories that rests upon extending the reach of the state and its security forces.

### Policy Responses: Beyond Hard Security

For now, however, it is *mano dura* policies that have thrived in the most crime-affected countries of the region. Latin American governments have invested heavily in security

equipment and personnel to “eradicate” and “combat” organized crime on their territory, and received international backing for their efforts. A widely cited and praised model for these approaches has been Plan Colombia. According to U.S. Vice President Joseph Biden, “in 1999, we initiated Plan Colombia to combat drug trafficking, grinding poverty, and institutional corruption – combined with a vicious insurgency – that threatened to turn Colombia into a failed state. Fifteen years later, Colombia is a nation transformed.” Compared to the years before Plan Colombia was initiated, the country has without doubt made huge strides: war-related civilian deaths have dropped, murder rates have tumbled, foreign investment has enjoyed a huge influx spurring strong economic growth, and peace



Master Sgt. Jerry Morrison, U.S. Air Force

U.S. Secretary of Gates and U.S. Ambassador to Mexico Carlos Pascual during the Merida Initiative plenary session in March 2010

talks with rebels from the Revolutionary Armed Forces of Colombia (FARC) appear to be nearly complete.

It is important to add that Plan Colombia has been questioned by critics for the human rights abuses that it spurred (connected to the actions of right-wing paramilitary groups operating with informal state support),<sup>66</sup> as well as for its failure to reduce in a significant fashion the export of cocaine from the country. Yet the progress made by Colombia is undeniable, and the model has therefore been emulated elsewhere. The Mérida Initiative in Mexico, again supported by the United States, sought to reinforce the fight against drug traffickers through funding for the police and legal system. In 2010, the United States backed the Central America Regional Security Initiative (CARSI) on similar premises. However, these latter programs have received rather more criticism than Plan Colombia: CARSI has failed to dent extraordinarily high homicide rates in Honduras, though it has accompanied the militarization of policing in both Honduras and Guatemala.<sup>67</sup> Regarding Mérida, John Ackerman has argued that “today, seven years, two presidents, and almost \$3 billion later, Mexico is more unsafe, chaotic, and authoritarian than before.”<sup>68</sup>

Meanwhile, the ongoing humanitarian crisis caused by children fleeing their home countries for the United States has prompted the Central American states of Honduras, Guatemala, and El Salvador to call for U.S. financial backing for a plan named Alliance for Prosperity in the Northern Triangle.<sup>69</sup> Most of the intended aid is for the strengthening of civilian institutions and economic development, rather than support for security forces. However, the plan has been criticized for focusing excessively on improving conditions

for foreign investors by spending on infrastructure and promises of corporate tax breaks.

Yet neither the traditional security support programs, nor the more recent emphasis on investment-driven economic development, appear well-suited to addressing the illicit networks that underlie the spread of criminal activity, and the failures to confront it, which have been identified in this paper. Plan Colombia’s success derived from its primary objective as a counter-insurgent military effort; its failures lie almost entirely in its efforts to reduce the volume and dimensions of organized crime, which is precisely the problem that Mexico and Central America are trying to address. Replicating the plan in other contexts has merely served to reproduce the patterns of stronger law enforcement that prove counter-productive for human security in certain dimensions. These include efforts to dismantle criminal organizations (including extraditions) that spur fragmentation and competition, excessive use of violence by emergent criminal groups,<sup>70</sup> and ever-higher levels of corruption of the state and security forces. It is also worth emphasizing that the huge economic incentives underlying criminal participation in the transnational drug trade have remained in place, or grown larger, under the prohibition regime and the “war on drugs.”

The recent turn towards a greater emphasis on economic development to stem the migrant exodus from Central America also pays insufficient attention to the illicit dynamics described in this paper. Latin America’s most crime-infested cities are not its poorest places, but its economic and commercial hubs: Buenaventura in Colombia, Ciudad Juárez in Mexico (or, for a while, Monterrey), San Pedro Sula in Honduras, or Ciudad del Este in Paraguay. The social and demographic effects



of an ill-planned economic boom invariably include rapid urbanization, widening inequality, and high levels of crime and criminal opportunity. One recent study on the causal relationship between foreign direct investment and organized crime in Mexico found that the latter deterred foreign investment in financial services, commerce, and agriculture, but did not have the same effect for oil and mining sectors.<sup>71</sup> It is worth adding that during the economic boom experienced in Latin America until recently, oil and mining attracted the most attention from foreign investors.

At the same time, the child migration crisis has led to further reinforcement of border security, not just along the U.S.-Mexico border, but also much further south. In Mexico the “Plan Frontera Sur,” or ‘Southern Border Plan,” initiated in July 2014, has sought to stem the flow of migrants by strengthening control along the southern border between Mexico and Guatemala. In so doing, the plan has received criticism for contributing to human rights abuses by security officials against Central American migrants, and these officials’ collusion with criminal groups.<sup>72</sup> It has also served to reinforce an enduring trend, whereby heavier border security limits the possible routes for clandestine migration to areas controlled by narco trafficking or criminal groups, who proceed to establish their own protection rackets over the migrant-smuggling business.<sup>73</sup> Thus, far from undermining crime, heavier border security can actually place additional sources of illicit revenue generation, local territories, and municipal authorities under the control of organized crime.

Many of these criticisms are already well known, and widely accepted within the security establishments of Latin America and the United States. However, the question remains

as to what would prove to be a viable alternative to tried, tested, and flawed policies in the light of what we now know about illicit networks linking crime and the state.

Clearly, greater efforts should be expended in weakening the links between politics and crime. Several Latin American states have tried to do so. One outstanding example dates from 2011, when the Colombian government introduced innovative reforms aimed at halting political party endorsement of candidates with suspected links to criminal activities.<sup>74</sup> In Peru, the government and 15 political party leaders recently agreed to reform aspects of the party and electoral system, including tougher sanctions for parties and individuals found guilty of corruption. New legislation establishes that any Congress member found guilty of these crimes would lose his or her seat in Congress, without the possibility of replacement.

*The laws and regulations aimed at preventing corruption are in any case largely in place. It is weak enforcement, especially at the local level, that undergirds the perpetuation of these complicit arrangements*

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However, reforms to political finance have neither been straightforward nor homogenous. A proposal in Paraguay to improve financial transparency and ban cash donations to political campaigns by individuals under judicial investigation for drug trafficking was watered down by the Senate. In Brazil, the powerful Partido do Movimento Democrático Brasileiro (PMDB) managed in June to secure initial congressional approval for a bill that would enable private companies to make donations to political parties.<sup>75</sup>

The laws and regulations aimed at preventing corruption are in any case largely in place. It is weak enforcement, especially at the local level, that undergirds the perpetuation of these complicit arrangements.<sup>76</sup> Indeed, the principal argument of this paper is that the essence of the power and resilience of these illicit networks – and the damage that they do to efforts to reduce violent crime and build more effective states – is to be found in the combination of criminalized territories beyond state control together with varying degrees of criminal collusion by actors in the central state.

Recent scandals, above all in Mexico and Central America, have drawn attention to the compound problem of state corruption, criminalized territories, and violent crime. A window of opportunity has opened for domestic reform and for innovative international support for these initiatives. Naturally, the basis of any reform or support program hinges on the characteristics of organized crime in the country and the patterns of its relations with state institutions. Clear understanding of these ties and complicities, whether overt or tacit, as well as acknowledgement of the counter-productive consequences of hard security interventions in contexts of strong political-criminal ties, is essential to the design of future programs.

In other words, no approach to the security dilemmas in the region, which are currently most acute in Mexico and the Northern Triangle of Central America, can hope to prosper without a holistic approach that is driven and supported by the efforts of society and government in each country. This new approach would ideally consist of three pillars. It would include, first of all, a program of institutional strengthening, in which the organizations that are most critical to the supervision

and severing of links between politics, state, and crime are given preferential support. This would mean, above all, support for the judiciary and prosecution service, as well as the ethics of public service more generally.

Security issues and the frequency of violent crime naturally remain a priority for the public and the government. But support for the security sector should be reoriented towards those interventions that would reinforce the virtuous links between communities, police and the state. This would mean directing attention towards reducing the most tangible and violent forms of crime, notable extortion rackets and the actions of certain drug trafficking organizations, and establishing clear targets for their reduction. It would also require sustained consideration of the counter-productive nature of certain counter-narcotic interventions, border security measures, and deportation policies.

Lastly, it is essential to support economic development, but in ways that embrace not just large-scale projects, but also the particular needs of marginalized communities.

There is no guarantee that such overarching programs will generate the desired transformations, or bring about a sudden and sharp reduction in violent crime. But at the same time, it is clearer than ever that the solution to Latin America's criminal activity is no longer blindly to support the state institutions that have often shaped, supported, and shared common interests with the supposed public enemy. **PRISM**

## Notes

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<sup>42</sup> The details of the initial operation and charges can be found here: <http://www.cicig.org/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=615&cntnt01returnid=67>

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<sup>50</sup> *El Tiempo*. 2015. "Casi 600 servidores públicos enredados con 'bacrim'". 07/08/15.

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in Guatemala and Honduras: <http://www.wilsoncenter.org/publication/CARSIExecSummary>

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<sup>73</sup> Martínez, O., op. cit.

<sup>74</sup> International Crisis Group. 2011. *Cutting the Links Between Crime and Local Politics: Colombia's 2011 Elections*. Bogotá-Brussels. <http://www.crisisgroup.org/en/regions/latin-america-caribbean/andes/colombia/37-cutting-the-links-between-crime-and-local-politics-colombias-2011-elections.aspx>

<sup>75</sup> Caicedo, Carlos. 2015. "Congressional political reform approval without government input weakens Brazilian president's political standing." *IHS Jane's Intelligence* 01/07/15, <http://www.janes.com/article/52722/congressional-political-reform-approval-without-government-input-weakens-brazilian-president-s-political-standing>

<sup>76</sup> Perdomo, C.. 2014. "Chapter 9: Comparative Regional Analysis of Legislation to Combat Organized Crime and its Links with the Political Sphere," in Briscoe, I, et al. op. cit.