

ABSTRACT:

Title of Thesis: Cartel Capitalism: Assessing the Macro and Micro Economic Effects of Cartel Activity on Mexico's Agricultural Industry Performance

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Cartel Capitalism: Assessing the Macro and Micro Economic
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Table of Contents

Abstract	iv
Dedication	v
Acknowledgments	vi
Chapter One: Cartels in Context	1
I. Introduction	1
II. Research Question & Methodology	5
III. Macroeconomic Shocks, Microeconomic Effects	7
IV. Lit Review	7
V. Summary Overview	19
VI. Conclusion	20
Chapter Two: Political Regime Changes and Corruption	21
I. Introduction	21
II. Defining Corruption	22
III. The PRI Regime	24
IV. The Dissolving of Cartel Protection	32
V. The War on Drugs	32
VI. Conclusion	33
Chapter Three: Cocaine to Corn and Back Again	36
I. Introduction	36
II. PRI and Agricultural Mismanagement	37
III. NAFTA	40
IV. Cartel Operations	42
V. Economic Effects	46
VI. Conclusion	47
Chapter Four: Cartel-onomics	49
I. Introduction	49
II. NAFTA & Economic Internationalization	50
III. War on Drugs	55
IV. Conclusion	62
Conclusion	64
References	67

Abstract

Since the early prohibition era, cartels have played a violent, impactful, and inextricable role within Mexican society. Cartel influence has grown exponentially, with current operations leading to a \$500-million USD net negative economic effect annually. However, the scale of Mexico's illicit economy and cartel influence has fluctuated with exogenous economic factors and global events and is felt most strongly in some industries rather than others. This thesis analyzes the microeconomic and macroeconomic impacts of Mexican cartels on the nation's agricultural sector following three key economic events i) political regime changes, ii) NAFTA, iii) the War on Drugs, and the ways political instability allowed for corruption to flourish and cartel expansion to take place. Ultimately, this thesis concludes that major economic shocks, when not met with adequate microeconomic policy, facilitate cartel operational expansion and illicit market growth. I argue that cartels have a significant economic impact in reducing production and export capacities and times of economic hardship or major points of economic change catalyze greater cartel activity as there is less oversight, policy, and economic stability, making cartels appeal as an alternate income source.

Dedication

Dedicated to my sister. There is nothing you cannot achieve.

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I would first and foremost like to thank my family and loved ones for their unwavering support and belief, and for pushing me to be the best version of myself. Your humor and love did not go unnoticed throughout this process.

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Chapter One: Cartels in Context

I. Introduction

Mexico and the Legacy of the Cartel

In the realm of Mexico's economic sphere, the agricultural sector stands as a critical locus given that for decades the industry served as an economic bright spot, supporting the country when it failed to keep pace with the Western industrialization boom.¹ Mexico, which holds one of the most successful economies in Latin America,² has proved to be an interesting case study in that despite its ability to compete and grow its people still struggle to make a living wage, and the economy as a whole fails to compete internationally.³ With the makings to be an economically successful country, much of their financial failures have been attributed to governmental failures and inconsistent political policies regarding the economy and democracy as a whole.⁴ Mexico's economic lag and political instability has forced it to lean more heavily on help from its Northern neighbors, Canada and the United States.⁵ The two Northern nations have supported Mexico through a number of bilateral trade agreements, tariff reductions, border

¹ Bushnell, G. H. S. (1976). The Beginning and Growth of Agriculture in Mexico. *Philosophical Transactions of the Royal Society of London. Series B, Biological Sciences*, 275(936), 117–120. <http://www.jstor.org/stable/2418215>

² Statista Search Department (2023, November 14th) Gross domestic product (GDP) in Latin America and the Caribbean in 2022, by country [Infographic]. Statista. <https://www.statista.com/statistics/802640/gross-domestic-product-gdp-latin-america-caribbean-country/#:~:text=Latin%20America%20%26%20Caribbean%3A%20gross%20domestic%20product%202022%2C%20by%20country&text=In%202022%2C%20Brazil%20and%20Mexico,Latin%20America%20and%20the%20Caribbean.>

³ Ellis, R. E. (2020). *Neighbor at Risk: Mexico's Deepening Crisis*. Center for Strategic and International Studies (CSIS). <http://www.jstor.org/stable/resrep26012>

⁴ Toledo, V. M., Garrido, D., & Barrera-Bassols, N. (2015). The Struggle for Life: Socio-environmental Conflicts in Mexico. *Latin American Perspectives*, 42(5), 133-147. <https://doi.org/10.1177/0094582X15588104>

⁵ Keller, R. (2016, March 03). Mexico-US Relations from Independence to the Present. Oxford Research Encyclopedia of American History. Retrieved 22 Apr. 2024, from [https://oxfordre.com/americanhistorical/view/10.1093/acrefore/9780199329175.001.0001/acrefore-9780199329175-e-269.](https://oxfordre.com/americanhistorical/view/10.1093/acrefore/9780199329175.001.0001/acrefore-9780199329175-e-269)

support, and political candidate endorsements.⁶ However, despite the additional assistance, Mexico has still failed to produce at a high capacity.

The country's agricultural sector has struggled compared to the other national industries as agriculture has been unable to keep up with globalization and industrialization and suffered from immense labor losses.⁷ While industry performance fluctuations are not uncommon, Mexico possesses a unique economic challenge that many Western competitor countries do not: cartels. This thesis looks to answer how Mexican cartel presence and activity have affected the agricultural sector's economic performance as well as how exogenous macroeconomic events allowed for corruption to flourish and cartel expansion across the country. Cartels have long been a source of immense violence, danger, and corruption throughout Mexico as rival cartels have fought for territorial control and governmental power within regions and each other. Cartel drug violence has escalated consistently since 2006 and has come to resemble actual warfare.⁸ The usage of armored vehicles, kidnapping, extortion, land mines, and semi-automatic weapons have left civilians stuck in the crossfire, businesses struggling, and much of the country in fear.^{9,10} The scale and expanse of Mexico's cartels' drug operations and violence equates to nearly 18.3% of the country's GDP and highlights the economic impact that such organized

⁶ *Ibid.*

⁷ Polaski, Sandra. (2004). *Mexican Employment, Productivity and Income a Decade after NAFTA*. Carnegie Endowment for International Peace, <https://carnegieendowment.org/2004/02/25/mexican-employment-productivity-and-income-decade-after-nafta-pub-1473>

⁸ Hamilton, Keegan., Linthicum, Kate. (2024, March 9). Soldiers and civilians are dying as Mexican cartels embrace a terrifying new weapon: Land mines. *The Los Angeles Times*. <https://www.latimes.com/world-nation/story/2024-03-09/mexico-cartel-land-mines-weapons>

⁹ *Ibid.*

¹⁰ Global Gaurdian. (2022, October 10). RISK MAP 2023 ANALYSIS: MEXICO CARTEL WAR. *Global Guardian: Global Intelligence, Security Updates and Alerts*. <https://www.globalguardian.com/newsroom/risk-map-mexico>

crime can cause.¹¹ Given the cartel's economic influence over the general economy and the detriment it serves to civilians, this paper takes both a macroeconomic and microeconomic perspective in analyzing the economic impact of the cartel and the ways that larger exogenous economic events have influenced the cartel.

Cartels, specifically drug cartels in the case of Mexico, do not have a singular definition. Literature, government agencies, and research all define drug cartels vastly differently and the definitions change depending on context. This thesis will use a combination of definitions when referring to drug cartels. Specifically, the definitions of David Carter and Veronica Alvarez. David Carter characterizes organized criminal activity as being profit-motivated, functional for extended durations, and frequently using violence and corruption tactics when interacting with civilians and government bodies.¹² While Carter's definition is successful at defining a criminal organization, it lacks greater specificity in defining a drug cartel. Thus, Veronica Alvarez's definition uses a combination of multiple definitions, including that of Carter's, to define drug cartels. She uses the following explanation to define Mexican drug cartels:

The definition used for this thesis of a drug cartel is a structured group, which exists for an extended period of time. A drug cartel is large in number of members, covers a large amount of territory, and has extensive connections with foreign and native criminal groups. The group uses violence and corruption to continue its criminal activity, and its main source of profit is from drug trafficking. A drug cartel differs from a drug trafficking organization, because it is an amalgamation of independent organizations that agree to work together under the direction of

¹¹ Cota, Isabella. (2023, September 21). From chickens to cabs: Drug cartels expand across the Mexican economy. *El País*. <https://english.elpais.com/economy-and-business/2023-09-21/from-lemons-to-cabs-drug-cartels-expand-across-the-mexican-economy.html>

¹² Carter, D. L. (1994). International Organized Crime: Emerging Trends in Entrepreneurial Crime. *Journal of Contemporary Criminal Justice*, 10(4), 239-266. <https://doi.org/10.1177/104398629401000402>

*specific leaders and a main boss. A drug trafficking organization can be considered the single unit that when combined with other drug trafficking organizations form a drug cartel. Not every Mexican drug trafficking organization is part of a cartel.*¹³

Alvarez's definition will be the main one referenced when discussing drug cartels in Mexico throughout the remainder of the thesis. Defining drug cartels is essential as the role and influence of these cartels are inextricable from Mexico's history and economic operations. The early days of Mexican cartel operations came to fruition in the early prohibition era of the United States.¹⁴ Cartels would bring alcohol across the border into the United States looking to make a profit. Today, these cartels have expanded to smuggling far more dangerous contraband including heroin, marijuana, cocaine, and opioids into the United States.¹⁵ In addition to the trafficking and drug production, within Mexico cartels have grown to dominate as a political force, intervening with elections,¹⁶ bribing officials, and manipulating government agencies.¹⁷ Economically, drug cartels prove to be a double-edged sword. As a whole, the cartels engage in high levels of violence that threaten the safety of civilians and decrease productivity. Cartel violence in 2022 cost Mexicans roughly a loss of 35,705 pesos (\$2,198) per person.¹⁸ However, a

¹³ Alvarez, V. M. (2006). *The history, structure, and organization of mexican drug cartels* (Order No. 1441328). Available from ProQuest Dissertations & Theses Global; ProQuest Dissertations & Theses Global Closed Collection. (304959369). Retrieved from <https://proxy.lib.umich.edu/login?url=https://www.proquest.com/dissertations-theses/history-structure-organization-mexican-drug/docview/304959369/se-2>

¹⁴ Paoli, Letizia. (2014). *The Oxford handbook of organized crime*, Oxford University Press, Oxford. <https://search.worldcat.org/title/oxford-handbook-of-organized-crime/oclc/894042429>

¹⁵ Grillo, I. (2013). Mexican Cartels: A Century of Defying U.S. Drug Policy. *The Brown Journal of World Affairs*, 20(1), 253–265. <http://www.jstor.org/stable/24590897>

¹⁶ Trejo, G., & Ley, S. (2018). Why Did Drug Cartels Go to War in Mexico? Subnational Party Alternation, the Breakdown of Criminal Protection, and the Onset of Large-Scale Violence. *Comparative Political Studies*, 51(7), 900-937. <https://doi.org/10.1177/0010414017720703>

¹⁷ Morris, S.D. (2013). Drug trafficking, corruption, and violence in Mexico: mapping the linkages. *Trends Organ Crim* 16, 195–220. <https://doi.org/10.1007/s12117-013-9191-7>

¹⁸ Cota, Isabella. (2023). From chickens to cabs: Drug cartels expand across the Mexican economy. *El País: Economy and Business*. <https://english.elpais.com/economy-and-business/2023-09-21/from-lemons-to-cabs-drug-cartels-expand-across-the-mexican-economy.html>

study conducted by Tommy E. Murphy and Martín A. Rossi found that cartels also served to improve the socioeconomic conditions within Mexico.¹⁹ They reported that greater tax revenue was collected and social services were better distributed throughout.²⁰ Mexico's drug cartels have vastly shaped the country's geo and socio-political landscape. However, the specificities regarding the ramifications of cartel activity and presence both economically and politically remain unanswered. Given the limited documentation and the underground nature of the cartel's operations, limited literature exists delving into the economic and socio-economic effects of the cartel on the country and its people.

II. Research Question & Methodology

This thesis uses the agriculture industry, one of Mexico's main economic sectors, to examine the downstream effects that the cartel has had on the economy and Mexican citizens. Specifically, it asks what are the micro and macro economic effects of cartel presence on the agricultural sector's economic performance and how have macroeconomic events concomitant with political instability allowed for corruption to flourish and cartel expansion to take place at the detriment of Mexico? Examining the roles that the cartel takes on within Mexico helps to reveal how they have become so entrenched within society and created a nationwide economic dependence upon their activities. By understanding what preserves their longevity and makes their operations so successful through a case study analysis, this thesis will provide suggestions

¹⁹ Murphy, Tommy E., Martín, Rossi. (2020). Following the poppy trail: Origins and consequences of Mexican drug cartels, *Journal of Development Economics*, 143, 102433. <https://doi.org/10.1016/j.jdeveco.2019.102433>.

²⁰ *Ibid.*

²¹ It is important to note that though social welfare benefits were found to a greater extent within *municipios* that contained cartel activity compared to those that did not, it cannot be determined whether or not all *municipios* would be better off should no cartel presence exist at all.

for phasing out economic dependence upon cartels and provide insight into the next steps to be taken to severely limit their presence entirely.

This thesis exclusively looks at Mexico's agricultural sector as a case study for understanding the ways in which cartels expand, take advantage of the political system, and the socio-economic effects their actions and presence instigate. To understand Mexico's agriculture sector and political structure, discussions of their histories, economic performance trends, and cartel relationships are conducted. These sections explain the interplay between economics, politics, and criminal activity, highlighting an ambiguous gray zone in which all three aspects overlap and closely affect one another. Within this gray zone cartel bribes, political corruption, and economic policy failures are found and explained, helping to set the stage for understanding how cartels became so pervasive and why they are so difficult to extract. Additionally, this thesis examines two large exogenous economic events –the creation and entrance into the North American Free Trade Agreement (NAFTA) and the War on Drugs– to understand how they affected cartel entrance, expansion, and their economic effects on the agricultural sector. Both NAFTA and the War on Drugs destabilized local economies as well as the national economy, which allowed easy entry for the cartel into the agricultural industry as well as a great incentive for them to do so. With little government oversight, struggling rural farmers, and an intensified spotlight on criminal activity during the drug war, cartels were repeatedly incentivized to diversify their operational capacities and expand into new industries– agriculture being one of them. This as a result encouraged farmers to defect to the cartel in hopes of receiving greater profits or forced them to suffer at the hands of cartel factions that established themselves as local governments in areas with little to none.²² Additionally, commentary relating to government

²² Yunez–Naude, A. (2003), The Dismantling of CONASUPO, a Mexican State Trader in Agriculture. *World Economy*, 26(1), 97-122. <https://doi.org/10.1111/1467-9701.00512>

response or lack thereof is provided to further highlight the reasons behind the difficulty of removing the cartel or mitigating their presence sufficiently.

III. Macroeconomic Shocks, Microeconomic Effects

The findings of the case study illustrate that cartels are financially motivated. Their entrance into, or exit from, a specific industry, trade, or economic subsector depends on financial gain.²³ As does their utilization of corruption or violence.²⁴ The motivation behind political manipulation, violent manslaughter, and coercive manipulation is the hope of increasing revenue to some extent— whether that be through route expansion, production capacity increases, robbery, or monopolistic market share positioning.²⁵ The results of the cartel’s money-hungry power grab almost always disadvantage Mexican civilians or capitalize upon their struggles.

IV. Lit Review

Inequality in Rural Mexico

The socio-political and economic landscape of Mexico is one riddled with inequality, corruption, and oscillating economic success. As of 2020, Mexico’s Gini Index Score—a measurement of inequality— sat at roughly 45.7 while at its peak in 1996, it was 53.6 illustrating that with the passage of time inequality is still omnipresent.²⁶ Avalos and Graillet argue that some of Mexico’s greatest economic disparities are found between rural and urban populations,

²³ Levitt, Steven D., Venkatesh, Sudhir Alladi. (2000, August). An Economic Analysis of a Drug-Selling Gang's Finances, *The Quarterly Journal of Economics*, 115(3), Pages 755–789, <https://doi.org/10.1162/003355300554908>

²⁴ *Ibid.*

²⁵ Gutiérrez-Romero, Roxana., Oviedo, Mónica. (2018, November). The good, the bad and the ugly: the socioeconomic impact of drug cartels and their violence, *Journal of Economic Geography*, 18(6), Pages 1315–1338, <https://doi.org/10.1093/jeg/lbx034>

²⁶ The World Bank, World Development Indicators (2020). GNI Index- Mexico, Atlas method CSV. Retrieved from <https://data.worldbank.org/indicator/SI.POV.GINI?locations=MX>

where asset-poor producers are the predominant demographic suffering from poor land quality, lack of irrigation systems, formalized avenues of credit access, and inability to reach markets, thus limiting agricultural production and income.^{27,28}

With agriculture being the dominant source of income in rural areas, urban epicenters flourish with access to greater economic opportunities. Similarly, López-Feldman et al. support the opportunity endowment argument by highlighting that Mexican households with access to resource extraction capabilities on or near their land see lower levels of inequality and greater household incomes, however, the generated success is highly dependent upon market prices for the good/goods that can be created with the extracted resources.²⁹ Rural municipalities struggle with access, towns fail to be connected, resources are not adequately provided, and the geographical locale makes commuting to urban city jobs, or the creation of industrialized opportunities, next to impossible.³⁰ In addition to limited professional opportunities, rural Mexican civilians contemporaneously struggle with a lack of government aid and support aimed at financially assisting the municipalities. Jaya Krishnakumar and Florian Chávez-Juárez's study found that cash transfer programs, such as Oportunidades, and government aid significantly reduced opportunity inequality between urban and rural areas within the young adult demographic.³¹

²⁷ Avalos, A., & Graillet, E. (2013). Corn and Mexican Agriculture. *American Journal of Economic Sociology*, 72(1): 145-178. <https://doi.org/10.1111/j.1536-7150.2012.00873.x>

²⁸ Brown, Pete. (1997). Institutions, Inequalities, and the Impact of Agrarian Reform on Rural Mexican Communities. *Human Organization*, 56(1): 102–110. doi: <https://doi.org/10.17730/humo.56.1.x3513m5414374720>

²⁹ López-Feldman, A., Mora, J., & Taylor, J. (2007). Does natural resource extraction mitigate poverty and inequality? Evidence from rural Mexico and a Lacandona Rainforest Community. *Environment and Development Economics*, 12(2), 251-269. doi:10.1017/S1355770X06003494

³⁰ Ornelas, Paloma Villagómez. (2019). Rural poverty in Mexico: prevalence and challenges. *National Council for the Evaluation of Social Development Policy*. <https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2019/02/Rural-Poverty-in-Mexico.-Paloma-Villagomez-Ornelas-1.pdf>

³¹ Krishnakumar, Jaya and Wendelspiess Chávez Juárez, Florian. (2011, March 29). The Impact of Oportunidades on Inequality of Opportunity in Rural and Urban Areas in Mexico. Available at SSRN: <https://ssrn.com/abstract=1938284>

However, most municipalities fail to receive sufficient funding and support, in turn leaving the population with little access to job opportunities or aid. As a result, farming remains the main occupation and source of income for rural municipalities. Understanding the disparate income and work opportunities between rural and urban Mexico is a place where greater exploration can be done as a means of better understanding the hyper-dependence on market pricing and what other income-aiding alternatives exist. There is not much discussion surrounding what options exist for struggling farmers and the tactics that cartels use to employ impoverished workers to convert to the drug trade. Mexico's under-investment in the rural countryside has left the regions without much technological advancement or infrastructural growth that is needed for farmers to financially support themselves and cultivate a profitable farm. Similarly, the lack of aid available to those who do need financial support is not sufficient or not found.

While it is suggested that greater funding and advancements are offered to these rural parts, that is often not the reality or politically feasible. In turn, farmers face the choice of either moving to cities, immigrating to the United States, both of which are costly, or fighting to make their farms profitable. Few other alternatives are suggested within the literature and thus make clear the difficult financial position rural farmers find themselves in and allow for a greater understanding of the appeal of the cartel. The attractiveness of the cartel and its ability to provide more support for Mexicans than the government underscores the urgency for comprehensive policies aimed at revitalizing rural economies and supporting agricultural communities as a means of slowly diminishing cartel power.

The Current State of Mexico and its Agriculture Industry

Mexico is the eighth-largest food exporter and fourteenth-largest food producer in the world with 5.4 million farmers.³² Despite these statistics, the country has seen minimal growth within the agricultural sector leaving Mexico struggling to compete against other growing countries. Between 1980 and 2013, Mexico's agricultural market failed to out-pace the annual GDP growth of 2.5% by increasing only 1.6% annually and declining year over year in percentage of annual GDP.³³ The authors conjecture that the faltering agricultural sector had even worse ramifications as trade liberalization drove prices in Mexico down and saw smaller returns for farmers.³⁴ Greater free trade coincided with the World Trade Organization's (WTO) decision to shift international pricing away from traditional governmental protectionist methods of tariffs and import quotas. Instead, they granted international pricing power based on national budget strength for domestic agricultural producers, an area that Mexico failed to fund well. These two factors initiated an inundation of agricultural imports –primarily in corn– into Mexico from the United States and Canada through the North American Free Trade Agreement (NAFTA) and China, with greater free trade, which drove consumer prices down and contributed to greater destabilization of the agricultural sector's economic stability. Corn serves as a staple in many Mexican households in tortillas, tamales, cornstarches, and other goods. However, despite its cultural presence within Mexico and the expanse of almost 40% of farmland to which it is grown, Mexico does not have a comparative advantage in producing the crop.³⁵ It is more

³² IICA. (2022, March). 2021 Annual Report of IICA, Inter-American Institute for Cooperation on Agriculture, https://apps.iica.int/SReunionesOG/Content/Documents/CE-2022/en/2a6d613c-7810-42d4-8ef4-28204d37ac18_wd741_2021_iica_annual_report.pdf

³³ Avalos, A., & Graillet, E. (2013). Corn and Mexican Agriculture. *American Journal of Economic Sociology*, 72(1): 145-178. <https://doi.org/10.1111/j.1536-7150.2012.00873.x>

³⁴ *Ibid.*

³⁵ *Ibid.*

expensive and requires more resources and labor to grow corn in Mexico than it does in other countries like the US or Canada. Mexico's comparative disadvantage in one of its integral crops made the country even more susceptible to the negative shocks of trade liberalization that allowed for cheaper corn products to be imported in and eventually price Mexican corn out. As prices and revenue plummeted, many farmers were forced to sell their land to large farms and further concentrated the corn and agricultural sector allowing for conglomerates to take over.³⁶

While Avalos and Graillet argue that it was international trade that caused Mexico's agricultural sector to suffer, Sanderson instead argues that an innate reason for the economics of the agricultural industry to falter is that much of Mexico's capital was switched away from farming and subsequent agriculture-related investments in the late 1900s to urban industrialization. He notes that instead of increasing funding to agriculture, greater funding and capital were allocated towards industry and industry-related advancements, which the state's finance already favored, as internationalization created more globalized economies that required cash injections at the time.³⁷ Mexico's agricultural sector was under-producing at the time and the country felt it imperative to bolster industry activity as a means of remaining competitive in the global market.³⁸ With the little funding that was left to spend on agriculture, the Mexican government elected to distribute it to the most productive farmers and crops, nearly all of which were large farming conglomerates that could afford to do business with the United States, leaving small local farmers and families without credit access.³⁹ These investment decisions

³⁶ *Ibid.*

³⁷ Sanderson, S. E. (1986). *The Transformation of Mexican Agriculture: International Structure and the Politics of Rural Change*. Princeton University Press. <http://www.jstor.org/stable/j.ctt7zts06>

³⁸ Trading Economics (2023). Mexico GDP From Agriculture. Retrieved from <https://tradingeconomics.com/mexico/gdp-from-agriculture#:~:text=GDP%20from%20Agriculture%20in%20Mexico%20averaged%20489081.33%20MXN%20Million%20from,the%20third%20quarter%20of%201994>

³⁹ Sanderson, S. E. (1986). *The Transformation of Mexican Agriculture: International Structure and the Politics of Rural Change*. Princeton University Press. <http://www.jstor.org/stable/j.ctt7zts06>

again stagnated growth and fiscal returns for small farms hurting the overall agricultural contribution to GDP and pushing farmers out of the industry. While research exists discussing the effects of labor shortages within Mexico's rural farming, there is very limited discussion on the role that the cartel took in encouraging farmers to leave licit farming, and what that meant for drug production as a whole.

Another hypothesis for Mexico's declining agricultural production postulated throughout the field stems from inefficient resource allocation. The country's need to advance and develop to remain economically competitive in both the industrial and agricultural spheres, coupled with the steady population increases and rising agricultural demands, has forced the country to allocate resources –namely in land and water– at an unsustainable level. Since 1950, the Mexican government has made it an integral economic objective to ensure that invaluable industrial resources and inputs are kept at a low-cost threshold to ensure that industrial development and economic growth can be carried out.⁴⁰ However, given that Mexico has a desert climate, farmable land and water access are scarce continentally. Barbier and Burgess' argument overlaps with Avalos and Graillet noting that to keep up with rising imports, exports have had to keep pace so as to not have Mexico squeezed out of the global agriculture trade and water has been funneled away from less profitable crops and roughly 400,000 to 1,500,000 hectares annually of land is deforested to increase space for agricultural land.⁴¹ Despite the environmental pitfalls, deforestation has benefited the sugar-cane industry, Mexico's second-largest agricultural crop behind corn which generates 0.5% of Mexico's GDP and 2.5% of manufacturing gross.⁴² The

⁴⁰ Barbier, E., & Burgess, J. (1996). Economic analysis of deforestation in Mexico. *Environment and Development Economics*, 1(2), 203-239. doi:10.1017/S1355770X00000590

⁴¹ *Ibid.*

⁴² Aguilar-Rivera, N., Rodríguez L., & D.A., Enríquez R., V. et al. (2012). The Mexican Sugarcane Industry: Overview, Constraints, Current Status and Long-Term Trends. *Sugar Tech*, 14, 207–222. <https://doi.org/10.1007/s12355-012-0151-3>

crop is considered antiquated in its harvesting and growth techniques, and to remain competitive the industry needs access to more land for more advanced harvesting and chemical processing abilities which has forced the government to reach into forested areas for fear of losing its position as a top producer.⁴³ The concerns of the sugar cane industry are not sequestered to one crop but rather relate to Sanderson's concerns regarding the reallocation of Mexican investments away from agriculture. This thesis discusses how policy decisions, such as the aforementioned deforestation decision, are done at a macroeconomic level with little consideration of the microeconomic impacts is government and economic oversight that benefit cartels. They create regulatory dead zones that leave entire demographics, similar to rural municipalities, to suffer and incidentally, force said demographic to turn to cartels for support instead. It is important to look closely at the ways that all aforementioned hypotheses regarding larger macroeconomic and smaller microeconomic effects fit together and what role government policy, or lack thereof, has played in these changes in agriculture. This thesis discusses the ways in which government policy has both helped and hurt in reducing cartel expansion and in affecting the country's overall economic state.

Corruption within Mexico's Economic Operations & Agricultural Sector

Corruption runs deep in Mexico's history and there are few corners and sectors for which it has not permeated. Frequent regime changes, power dynamic discrepancies, little enforcement of laws and bylaws, and black market cartels have propagated opportunities and ideologies of corruption. In Otero's work, he argues that incredulity in the government facilitated corruption and allowed for much of it to go unnoticed, especially within the agriculture industry where it

⁴³ *Ibid.*

flourished.⁴⁴ Within agriculture, a corruption scheme formed known as *la industria de siniestros* which revolved around insurance fraud of crops and credit.⁴⁵ Corrupted agrarian officials within the Banco Nacional de Credito Rural (National Rural Credit Bank) and the Aseguradora Nacional Agricola y Ganadera (National Agency for Agricultural and Livestock Insurance) defrauded government programs and agencies by colluding with farms to declare crops as unharvestable and collecting insurance money, despite that the crops were harvested and sold.⁴⁶ The agriculture sector's ethos of corruption was continuously compounded by government oversight and mismanagement.

In January 1999, the National Company of Popular Subsistence (CONASUPO), an organization tasked with market regulation, producer-consumer relationship oversight, corruption control, and low-income producers and consumer subsidies, was dissolved.⁴⁷ The loss of CONASUPO came right at a time of regime change when the Institutional Revolutionary Party (PRI) was taking over Mexico.⁴⁸ Without CONASUPO domestic price gauging between producers was far more common and disproportionately affected low-income and small farms, which were already suffering after losing CONASUPO's low-income aid.⁴⁹ These findings tie closely together with the concerns of Peterson and Avalos and Graillet in that the loss of government aid and targeted financial penalties drove down the profits of small producers even further sending some to urban work and even more to illicit means of convalescing income. The literature discusses government failures and policy oversight however it does not delve into the

⁴⁴ Otero, G. (1996). *Neoliberalism Revisited: Economic Restructuring And Mexico's Political Future* (1st ed.). Routledge. <https://doi.org/10.4324/9780429493416>

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ Yunez-Naude, A. (2003), The Dismantling of CONASUPO, a Mexican State Trader in Agriculture. *World Economy*, 26(1), 97-122. <https://doi.org/10.1111/1467-9701.00512>

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

economic effects of such policy oversights nor the role the cartel played in taking advantage of them.

This thesis explores specifically the macro and microeconomic effects of government and policy oversight particularly in the rural farming communities. It contributes a rural perspective on macroeconomic decisions in contrast to most literature examining policy decisions from a national or urban perspective and connects such governmental oversights to cartel activity and predation. Additionally, this thesis looks at, and contributes to, discussion on the smaller microeconomic effects that cartels and larger policy oversights can cause and the downstream effects that rural communities face.

Cartel Influence

Governmental corruption is ubiquitous throughout Mexican agriculture, however, in recent years it no longer reigns as the most nefarious and minacious threat to civilians and stability. Rather, the cartel has now infiltrated into the agricultural sector as a means of offsetting lost revenue from the War on Drugs and siphoning off government aid along with civilian protection taxes. The cartel's entrance into agriculture slowly emerged in 2001 with the fall of the PRI as members of the party that previously accepted portions of drug smuggling profits and extended political protection in return lost power, a point supported by the works of Yunez-Naude who touches on political instability as a reason for greater corruption.⁵⁰ The dissolving of these protectionary relationships left the cartel exposed and vulnerable to seizures, raids, rival attacks, and government crackdowns as power transitioned, sparking a rush to hide operations. Cartels looked to conceal and secure their operations behind one of two tactics: disguising their

⁵⁰ Herrera, Joel Salvador., & Marinez-Alvarez, Cesar B. (2022). Diversifying violence: Mining, export-agriculture, and criminal governance in Mexico, *World Development*, 151, <https://doi.org/10.1016/j.worlddev.2021.105769>

enterprise behind the facade of licit farming or instigating an onslaught of violence and arms race to ensure territory and route fortification where possible.⁵¹

In 2006, cartel presence metastasized with the joint launch of Mexico and the United States' War on Drugs. The North American crackdown on drugs heightened competition and limited revenues forcing many less established cartels to look for new economic industries to tap into and expand their revenue generation portfolio.⁵² Given agriculture's proximity to drug growth and development, and the industry's negligent regulatory oversight, many cartels shifted to the industry seeing potential in intercepting what was left of government agriculture aid and the weakness of small farmers to protect themselves from extortion. Additionally, the control of natural resources allows for a local-level hegemony to be established by the cartel that controls the regional population and economic sector while substantiating funding for cartel-war efforts and combating higher costs of smuggling drugs post-war.⁵³ With regional control and economic influence, the cartel was able to bring in ancillary income to fund their operations and smuggling while appearing legitimate on the surface.

Looking into exactly which industries that the cartel was involved in within agriculture is imperative and this thesis serves to understand exactly what roles the cartel took on within agriculture. The paper looks at the industrial composition of two main crops –avocado and corn– within Mexico and discusses the way the cartel positions themselves and their power within each one. Understanding their roles and financial gains, which can be obtained through seizure and route records, allows for a greater grasp of the incentivization for targeting agriculture and

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ *Ibid.*

contributes to the discussion of the motive behind cartel expansion as well as performance within the specific agricultural sectors.

The significance of the cartel's entrance into agriculture and sectorial control of the Mexican economy lies within the co-dependent relationship that is formed between Mexican crime syndicates and local rural civilians, as emphasized in Avalos and Graillet. With the knowledge that rural income is closely correlated to international market prices of agricultural goods –such as corn, sugar, and fruits– the cartel is able to institute appurtenant income substitutions by offering payment in return for farmers growing opium poppies and marijuana to be distributed through cartel smuggling.⁵⁴ With trade liberalization dropping prices, in corn specifically, rural corn farmers see their revenues fall, and urban-to-rural income inequality expounds, incentivizing many to go into illicit cartel deals as a means of abating their profit loss.

The cartel's monopsony forces drug-producing farmers to be price takers within the market, meaning that regardless of what the cartel chooses to offer the farmers as compensation they are forced to accept. With cartel-farmer mutually dependent relationships ossified, economic substitution and income effects formed between drugs and corn in that as corn/agricultural prices fall, drug cultivation increases.⁵⁵ The infiltration of the cartel into the agriculture industry bolstered their revenue streams and illicit activity throughout rural Mexico simultaneously siloing rural farmers into cartel activities to offset income disparities aggravated by the government.

Aside from corn, studies have shown that the avocado industry was a highly profitable and cartel-targeted crop given its high demand in the US. In 2017 alone 45.95% of Mexico's

⁵⁴ Dube, Oeindrila., García-Ponce, Omar., & Thom, Kevin. (2014). From Maize to Haze: Agricultural Shocks and the Growth of the Mexican Drug Sector, Center for Global Development, <http://www.cgdev.org/>

⁵⁵ *Ibid.*

total exports were avocados and despite the heavy cartel presence, it was the only industry to see growth.⁵⁶ Growth only encouraged greater cartel activity and in years where profits for the crop skyrocketed, such as in 2013 when avocado export revenue was \$800 million USD, kidnappings and torturing of avocado farming families did as well.⁵⁷ Despite the body of evidence arguing that avocado popularity exacerbated cartel presence, a study done by Megan Erickson and Lucas Owen concluded the opposite, that international avocado popularity boosted farmer profits and prompted them to defect from drug growth and stick to avocados.⁵⁸ The exactitude of cartel influence and the defection or lack thereof from drug growth to pure avocados or licit agriculture growth is difficult to determine thus more literature and official government reports need to be analyzed to understand the true effects.

However, understanding that a takeover of the whole agriculture industry was not the goal of the cartel is an essential difference to make and explore. Rather, cartels looked to dominate individual markets of more lucrative or highly exported crops given that, as aforementioned, cartels look to maximize profit not control helping to understand the motive behind the industries selected for cartel entrance. Thus the cartels' selection of the agriculture industry is less incentivized by the opportunity to subsume a governmental role and control a region or economic sector and more incentivized by the potential to extract lucrative profits.

Looking for financial patterns between other industries that the cartel chose to enter and whether

⁵⁶ Aguirre, J., & Gómez, M. (2020). Competitive strategies in contexts of organized crime: The case of the avocado industry in Mexico. *International Journal of Criminal Justice Sciences*, 15(1), 114-126.
doi:<https://doi.org/10.5281/zenodo.3822110>

⁵⁷ Rudo, Lynne Jessica. (2021). *Beyond the Guacamole: A History of How Drug Organizations Became Involved in the Avocado Industry*, Masters Thesis, The University of West Florida Graduate School. The University of West Florida ProQuest Dissertations Publishing, <https://www.proquest.com/docview/2555672820?pq-origsite=gscholar&fromopenview=true>

⁵⁸ Erickson, Megan., & Owen, Lucas. (2020). *Blood Avocados: Cartel Violence Over Licit Industries in Mexico*, University of Washington Political Economy Forum, https://sites.uw.edu/uwpoliticeconomy/files/2020/08/Erickson__Owen_2020_06_092.pdf

or not there were similar sub-categories that they particularly looked to control is also an interesting comparison point when examining cartel activity and something to be looked at closely.

V. Summary Overview

This first chapter serves to provide context behind the thesis and its mission as well as provide context surrounding Mexico and its history in regard to agriculture and economic performance. It also provides a brief overview of the complex relationship between Mexico and the cartel as well as a discussion of the literature regarding Mexico's cartels and their tumultuous political and economic past. Moving forward, Chapter 2 delves into the intertwined relationship between corruption, political power, and cartel influence in Mexico. It explores historical trajectories to illuminate how corruption tainted the regime of the Partido Revolucionario Institucional (PRI) and hindered efforts toward reform and democratization, allowing the cartel to thrive and rely heavily on the government for its success. Chapter 3 focuses on the agricultural sector and its relationship to the cartel specifically. This chapter examines how government failures and policy shifts allowed cartels to infiltrate the industry and the economic ramifications that resulted. It analyzes the impact of NAFTA and other macroeconomic factors on Mexican farming, leading to a decline in agricultural employment and the rise of cartel involvement. Chapter 4 explores the unique entrance of cartels into the Mexican agriculture sector and the consequences of NAFTA. It investigates how NAFTA's economic liberalization inadvertently facilitated cartel infiltration and increased drug trafficking, reshaping Mexico's agricultural landscape and exacerbating socio-economic disparities. It connects the macroeconomic effects discussed in the previous chapters and explains how their interconnectedness ultimately is what

has let the cartel survive and be successful, evaluating which has had the largest economic impact. Finally, the conclusion discusses the relationship of the cartel to all of the exogenous factors referenced throughout the thesis and suggests future points of study within the field.

VI. Conclusion

The emergence of cartels within Mexico's agricultural sector represents not only criminal expansion but also a manifestation of deeper societal and economic malaise. Motivated by profit and facilitated by corruption, cartels have exploited the vulnerabilities of rural communities, offering illicit alternatives to struggling farmers and asserting control over lucrative commodities such as avocados. Their presence, entangled with political instability and institutional deficiencies, has perpetuated a cycle of violence, coercion, and economic dependence that undermines Mexico's aspirations for sustainable economic growth. This thesis explores a number of facets that allow for cartels to thrive along with specific events that catalyzed substantial expansion and takeover. Specifically, government policy failures, NAFTA, and the War on Drugs are examined for their role in altering both the national economy as well as localized economies and cartel control. While the presence of cartels in Mexico's agricultural sector is undeniable, their impact extends far beyond agriculture. The symbiotic relationship forged between cartels and local communities highlights the broader socio-economic disparities prevalent in Mexico. Addressing the root causes of cartel influence requires a comprehensive approach, encompassing economic restructuring and social development initiatives, something this thesis delves into.

Chapter 2: Political Regime Changes and Corruption

I. Introduction

In this chapter, I will first define corruption as it relates to the actions and behaviors of the Mexican government and the cartel as a government-acting body as well as present commonly used definitions within the discipline of Latin American studies and justify why they do not work in the context of this thesis. In doing this I will also discuss ways that corruption relates to both parties and the damage it caused to the country of Mexico and its people.

For the remainder of the chapter, I will provide historical context and background regarding Mexico's political history and its relationship with corruption. I will first start by briefly discussing the country's pre-democracy history before going more in-depth regarding the country's successful shift to a stable democracy and the dominant party that ruled for roughly seventy years— the Partido Revolucionario Institucional (PRI). The PRI's rise to power, ability to maintain it, and eventual decline are then explored analyzing the regime in relation to corruption, the cartel, and the country over which it ruled. The PRI's reputation for corrupt leadership and decision-making, symbiotic cartel partnerships, and coercive behavior tainted the regime and ultimately led to its demise. The succeeding democratic party after the PRI continued to struggle, and eventually failed, in removing the corruption and cartel governance supported by the old regime. Instead, such failures inflamed the issues of corruption and cartel prevalence by militarizing a formal War on Drugs against the cartels.

II. Defining Corruption

“Corruption” has become a word often synonymously associated with “Mexico” as it runs deep in the country’s history and affects all industries and individuals to some extent.⁵⁹ Frequent regime changes, lack of government oversight, little enforcement of laws or bylaws, and black market cartels have propagated opportunities and ideologies for corruption to flourish. Further, corruption has come to burden citizens with many accepting that “it continues because [the government] know[s] nothing will happen, impunity is generalised” and thus trust in, and support of, the government is decimated.⁶⁰ Throughout Mexico, corruption manifests itself in a myriad of different ways and relationships. The most central discussions of corruption include the government’s exploitation of power and abuse of economic industries for personal gain, relationships between the government and the cartel, and the cartel's relationships with farmers.

The presence of corruption and its metamorphosing appearance is not disputed, however, the way corruption is defined within the context of Mexico is an ongoing debate.⁶¹ A widely used interpretation across the field defines corruption as the abuse of governmental power and authority for personal gain.⁶² While this definition at times accurately defines Mexican corruption within the context of this thesis, it is not sufficient in explaining corruption within non-government institutions– such as the cartel and its sphere of influence. As such, this thesis defines corruption using, Mexican politician and scholar, Irma Sandoval-Ballesteros' interpretation. She breaks the definition into two parts, the first being that corruption is a

⁵⁹ Morris, Stephen D. (2009). *Political corruption in Mexico : the impact of democratization*. Boulder, Colo.: Lynne Rienner Publishers.

⁶⁰ Lakhani, Nina. (2023). *How a Mexican state siphoned off millions – and a reporter risked her life to expose it*. The Guardian, <https://www.theguardian.com/world/2023/may/31/mexico-corruption-journalist-investigation-kidnapped>

⁶¹ Morris, S. D. (1999). Corruption and the Mexican Political System: Continuity and Change. *Third World Quarterly*, 20(3), 623–643. <http://www.jstor.org/stable/3993325>

⁶² Nye, J. S. (1967). Corruption and Political Development: A Cost-Benefit Analysis. *The American Political Science Review*, 61(2), 417–427. <https://doi.org/10.2307/1953254>

“specific form of social domination characterized by abuse, simulation, and misappropriation of resources arising from a pronounced differential in structural power.”⁶³ Sandoval-Ballesteros’ definition attributes general power structure differences –structural corruption– to be the catalyst for corruption –an idea emphasized throughout the thesis– which allows for corruption to be discussed concerning the government and the cartel when considering the cartel as taking on a fundamental governmental role.

Additionally, this definition allows for ambiguous interpretations of “social domination” stated as being a factor in corruption which allows for diverse analyses of the government’s actions and behaviors, as well as eventually the cartels’ when acting as a governing body, which can be classified under the term.⁶⁴ The second part of Sandoval’s definition used to evaluate corruption combines multiple definitions and states that corruption is “A) the abuse of a pronounced power differential creating a situation of domination, B) the lack of punishment, especially for the private sector when it captures areas of or takes over functions which normally correspond to the public sector, and C) citizen disempowerment and distancing of society from the political class.”⁶⁵ Facets of Sandoval’s definition apply to the corruption and predation of the cartel when involved with the government specifically, whether that be state officials working in conjunction with the cartel or the cartel as a system when acting as a governing body.

⁶³ Sandoval-Ballesteros, Irma. (2013, December 20). From 'Institutional' to 'Structural' Corruption: Rethinking Accountability in a World of Public-Private Partnerships. *Edmond J. Safra Working Paper No. 33*, DOI: <https://dx.doi.org/10.2139/ssrn.2370576>

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*

III. The PRI Regime

The Rise & Sustained Dominance of the PRI Regime

The political history of Mexico has been one marred with conflict and unrest, with the early years wrought by tumultuous authoritarianism, revolutions, assassinations, and structural overhaul.⁶⁶ Following the country's liberation from Spanish rule in 1821, leadership oscillated between authoritarian regimes and monarchies with the battle concluding in 1929 with the establishment of the Partido Nacional Revolucionario (PNR), eventually known as the Partido Revolucionario Institucional (PRI).⁶⁷ The PRI became the country's first prolonged democratic success, with the party ruling consecutively from 1929 to 2000. However, the extent to which the regime was considered a success remains contentious.⁶⁸ The PRI quickly was recognized more for its pervasive widespread corruption, fraud, resource abuse, and general harassment.⁶⁹ These behaviors severed the tie between the government and civilians making clear that the regime would not act as a democracy with the intent of serving the people, but would instead use the people as agents to secure greater power and financial gain, laying the framework for ubiquitous institutional corruption.

Despite the failures and blatant corruption, the PRI's continued electoral victories through the mid to late 1900s and into the 2000s are best characterized by the work of Alberto Diaz-Cayeros, Beatriz Magaloni, and Barry Weingast. The authors write that "the PRI system is at once tragic and brilliant" in that the party has made corruption inextricable from daily life in a

⁶⁶ Diaz-Cayeros, Alberto., Magaloni, Beatriz., & Weingast, Barry R. (2000). Democratization and the Economy in Mexico: Equilibrium (PRI) Hegemony and its Demise. *Stanford Univeristy Researchgate*, <https://www.researchgate.net/publication/267793723>

⁶⁷ *Ibid.*

⁶⁸ Langston, Joy. (2017). *Democratization and Authoritarian Party Survival: Mexico's PRI*. Oxford University Press.

⁶⁹ Flores-Macías, Gustavo A. (2018). *Life after Dictatorship: Authoritarian Successor Parties Worldwide*. Cambridge University Press, Pg. 8-280

manner where the country is not only dependent upon it to run but also coerces citizens to play an integral part in supporting the corrupt system they outwardly oppose.⁷⁰ Corruption became entrenched within the country as institutions and parties became the mechanism through which it was encouraged and its growth became unfettered. Complete nationwide power was essential to the PRI and thus elections became sacrosanct and forced the implementation of corrupt systems to ensure victory. The PRI threatened states that did not vote in its favor with funding freezes and punitive taxes from branches where power was retained, forcing citizens to acquiesce and vote in their favor for fear of punishment.⁷¹ Thus, the PRI's manipulation, resource mismanagement, and violent punitive actions toward its citizens and electoral control illustrate the regime's social domination and therefore institutionalized corruption.

PRI Collusion, Corruption, & Cartels

The corruption within the Mexican PRI worsened civilian-government tensions and established symbiotic relationships with cartels, cultivating an environment where the state championed corruption and social dominance for personal enrichment. Economist Mancur Olson discusses the essentiality of government power turnovers in protecting against stagnated economic growth in his work contextualizing the post-World War 2 economic conditions within the European Union. He states that regime changes and new governments are essential to combating economic decline as groups in longstanding positions of power are more susceptible to interest or lobbyist groups looking to advance their own interests and in turn slow down economic growth.⁷² Oftentimes in these stagnated regimes lobbyists and interest groups are able

⁷⁰ Diaz-Cayeros, Alberto., Magaloni, Beatriz., & Weingast, Barry R. (2000). Democratization and the Economy in Mexico: Equilibrium (PRI) Hegemony and its Demise. *Stanford Univeristy Researchgate*

⁷¹ *Ibid.*

⁷² Olson, M. (1996). The varieties of Eurosclerosis: The rise and decline of nations since 1982. In N. Crafts & G. Toniolo (Eds.), *Economic Growth in Europe since 1945* (pp. 73-94). Cambridge: Cambridge University Press. doi:10.1017/CBO9780511758683.004

to infiltrate and manipulate governments via avenues of corruption, using political power and resources for personal gain at the expense of greater society. Long-ruling governments and coalitions work harmoniously with these interest groups, existing to extract surplus for themselves at the expense of economic advancement and the good of the public— an explicit display of Sandoval’s corruption definition.⁷³ While Olson’s work is meant to describe the European Union his theory bears parallels to the declining economic performance of the Mexican agricultural industry. The PRI’s staunch rule allowed for the cartel –an acting interest group– to infiltrate the state’s political system, influence decision-making, and establish a mutually beneficial surplus-extracting relationship. Aside from individual payoffs, cartels utilized violence, threats, and mass bribes to gain access to politically powerful roles, sensitive documents, and eventually local economies.⁷⁴ A former mayor of a Michoacán municipality who long fought the cartel during his elected tenure stated “My police force was totally subdued; I was not in charge. In fact, [the Templars] controlled me through the municipal police commanders. But I could not resist; those who did were eliminated,” admitting to being forced to allow the cartel to control the region and highlighting the dangers of cartel infiltration.⁷⁵ With greater access to public office and control of municipalities, the cartel could more freely operate, and utilize government tax reports, income statements, and familial disclosures to select targets for ransom, kidnapping, and high protection taxes determined by the lucrativeness of their family farms and businesses.⁷⁶

⁷³ *Ibid.*

⁷⁴ Trejo, G., & Ley, S. (2020). Votes, Drugs, and Violence. In *Votes, Drugs, and Violence: The Political Logic of Criminal Wars in Mexico* (Cambridge Studies in Comparative Politics, pp. I-II). Cambridge: Cambridge University Press.

⁷⁵ Maerker, Denise. (2014, April 1). Auxilio, ¿dónde está el Estado? Nexos, <https://www.nexos.com.mx/?p=20052>, Accessed 14 January 2024

⁷⁶ Trejo, G., & Ley, S. (2020). Votes, Drugs, and Violence. In *Votes, Drugs, and Violence: The Political Logic of Criminal Wars in Mexico* (Cambridge Studies in Comparative Politics, pp. I-II). Cambridge: Cambridge University Press.

Collusion between the Mexican government and various cartels dismantled political credibility and played an intrinsic role in the normalization and systemic spread of corruption such that regardless of the regime in power it would still prevail. The PRI regime and the larger Mexican state are accredited with the creation and proliferation of 20th-century drug trafficking as the government agreed to “ignore” their activities in exchange for monetary payoffs.⁷⁷ During the trial of infamous Sinaloa cartel head Joaquin “El Chapo” Guzman, former associates revealed that bribes made to police officers and military officials reached between \$100,000 dollars and \$10 million dollars on average to ensure their support and compliance.⁷⁸ While some of the money collected through bribes and payouts were allocated for public usage by the government, the majority of it was used for personal gain and continued to incentivize the support of corrupt relationships.⁷⁹ However, the most impious aspect of the government-cartel collusion was not the personal gains, but rather the sanctioning of cartel activity which threatened the lives of civilians, promoted violence and destruction, and allowed for copious amounts of drugs to be grown and transported over the border. High-ranking officials offered up information as sensitive as tips regarding “upcoming raids, ensured that cocaine could pass freely through the country, colluded with cartels to raid rivals, and did other favors” to ensure that cartels could continue to operate and continue to receive resulting payments.⁸⁰ The dissemination of information that aided the cartel is one of the government's most egregious acts of corruption as they simultaneously hurt the people of Mexico, allowing for violence to spread, cartel power to continue, and public

⁷⁷ Taub, Amanda. (2023). *In Mexico, Drug Trade Flourished With the Help of the State*. The New York Times, <https://www.nytimes.com/2023/09/06/world/europe/interpreter-mexico-drug-trade.html?searchResultPosition=15>

⁷⁸ Associated Press. El Chapo trial shows how 'rampant,' 'systemic' corruption impedes drug war. (2019, Feb 3). *NBC News*, <https://www.nbcnews.com/news/us-news/el-chapo-trial-highlights-how-mexico-graft-impedes-drug-war-n966346>

⁷⁹ *Ibid.*

⁸⁰ Former Mexico security chief convicted in U.S. for taking cartel bribes. (2023, Feb 21). *CBS News*, <https://www.cbsnews.com/news/mexico-security-chief-genaro-garcia-luna-drug-cartels-bribes/>

officials who turned a blind eye to profit. Similarly, author James Korman writes that “the PRI (Institutional Revolutionary Party) during its seven decades in power, the military, traffickers, police, and political officials all took a cut from narcotics traffic traversing their territory” which allowed for the cartel to increase their operational capacity and breadth.⁸¹ Moreover, it also established a precedent of state corruption by abusing positions of power and normalizing cooperation with cartels and criminals for personal gain at the expense of the greater population—in the same manner that Sandoval defines corruption.

The proximity between the cartel and the Mexican government is best explained in David Shirk and Joel Wallman’s discussion of cartel violence offering that the relationship should be looked at “not as criminals corrupting the state but criminals as subjects of the state” with influence, power, and impunity, implying that they act as well on behalf of the government’s wishes.⁸² The government and the cartel created a cyclical system of corruption comprised of four steps. First, the cartel provides money in the form of bribes or payouts to PRI officials. The funding behind such financial alms comes from the drug trafficking and narcotics production that the payments are meant to conceal. Second, PRI officials required assurance that the party would win elections and retain municipal power. Electoral victory was guaranteed through violence, manipulation, and voter fraud and provided by the cartel. Third, in exchange for the assurance of PRI power retention, the PRI regime would not crackdown on cartel operations and overlooked their activities, allowing for the cartel to operate as they pleased. Finally, the freedom to operate without hindrances allowed for greater revenue generation and in turn larger bribes to offer back to the PRI, and greater allegiance to keep the party in power. The protection of, and benefits

⁸¹ Korman, James. (May 14, 2019). Drug Cartels, Oil Rents, and Homicide – The Case of Mexico.’ Available at SSRN: <https://ssrn.com/abstract=3490397>

⁸² Shirk, D., & Wallman, J. (2015). Understanding Mexico’s Drug Violence. *Journal of Conflict Resolution*, 59(8), 1348-1376. <https://doi.org/10.1177/0022002715587049>

derived from, the cartel and their illicit activities ultimately served as a detriment to the people of Mexico and the country's political climate while simultaneously making both their presence and corruption inextricable from national systems and institutions.

Economics of Corruption

The aforementioned cycle of corruption between the PRI and the cartel had effects that spanned outside of just the political arena. Cartel violence and regime stagnation, as Mancur Olson noted, have sizeable economic impacts that were felt both at macro and microeconomic levels throughout Mexico. On a macroeconomic scale, increased cartel profits from 2002 to 2011 predated upon national GDP levels negatively affecting roughly 0.05% of Mexico's GDP on average.⁸³ Though the number itself appears nominal, it highlights that the cartel has an economic impact. Between 2002 and 2011 the Mexican national GDP was roughly \$1-trillion USD, meaning that an average impact of 0.05% on the country's GDP by the cartel would result in a \$500-million USD net negative economic effect.⁸⁴

On a more microeconomic level, a study done by three Harvard researchers found that municipalities exposed to intense violence and Drug War conflict reduced export growth by around 40%, in turn stifling rural economy growth and national GDP production.⁸⁵ The effected municipalities were areas in which heavy crackdowns as a result of the War on Drugs were carried out, and spurred a barrage of violent cartel attacks as a result. The rampant violence that

⁸³ Ivaldi, Marc., Khimich, Aleksandra., Jenny, Frédéric. (2015, Feb 6). Final Report on Measuring the Economic Effects of Cartels in Developing Countries. *United Nations Conference on Trade and Development*. https://unctad.org/system/files/official-document/ditcclpmisc2014d2_en.pdf

⁸⁴ The World Bank. (2022). GDP (current US\$) - Mexico. *World Bank Data*. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=MX>

⁸⁵ Gorrín, J., A., J.R.M. & Ricca, B. (2019). The Impact of the Mexican Drug War on Trade. *Harvard University Growth Lab*. Copy at <http://www.tinyurl.com/2y2mnycd>

ensued from the War on Drugs significantly disrupted the daily lives and economic functioning of Mexico at both national and sub-national levels. The cartel reduced overall economic productivity as industries and citizens faced punitive taxes and fines by the cartel to guarantee safety and were forced to work within the confines of what the cartel deemed acceptable activity, which in turn lowered the productivity threshold for Mexico as a whole.

The Fall of the PRI

The PRI's intentionally ubiquitous power dispersal and cartel-backed intimidation systems meant to ensure election victories could not withstand the global negative economic shocks that increased civilian opportunity cost to vote against the PRI and subsequently led to the regime's decline. In relation to elections, the cartel has been known to intimidate voters, tamper with ballots, and prevent citizens from ever making it to the polls.⁸⁶ With market performance declining from the 1970s to 1980s and the government beginning to shift policy towards greater open market trade and away from import substitution industrialization, households began to feel the negative effects as revenues declined.⁸⁷ These economic growing pains frustrated civilians and the blame was attributed to the PRI regime. As aforementioned, the PRI's ability to consistently hold office was a consequence of a myriad of fear-mongering tactics with the main one being threats of economic punishments for the regimes that failed to vote for the PRI. However, with the national economy declining, negative economic impacts were being felt across the nation and thus the threat of greater monetary penalty seemed unlikely and

⁸⁶ Navarro, Carol. (2011). *Partido Revolucionario Institucional (PRI) Narrowly Wins Michoacán Gubernatorial Election Amid Allegations that Drug Cartels Influenced Final Results*. University of New Mexico UNM Digital Repository, <https://digitalrepository.unm.edu/cgi/viewcontent.cgi?article=6842&context=sourcemex>

⁸⁷ Langston, Joy. (2017). *Democratization and Authoritarian Party Survival: Mexico's PRI*. Oxford University Press.

unfeasible. Thus, fear of the PRI dissipated and a greater sense of interest in removing the party from power came to fruition.⁸⁸ Slowly the PRI began to lose subnational elections to the conservative National Action Party (PAN) and democratic Party of the Democratic Revolution (PRD) weakening the once hegemonic reign and calling into question the certainty of whether another PRI president would be elected.

The Mexican State and cartel's seemingly conjoint hegemony over the people of Mexico began to collapse as rampant corruption and cartel violence initiated a national demand for change by the Mexican people. The presidential election of 2000 was historic as the PRI suffered its first national loss to PAN candidate Vicente Fox who ran on the promise of combatting corruption and increasing public security— the two most pressing concerns of the population at the time.⁸⁹ However, despite Fox's win, the PRI never truly dissipated, and neither did their corruption. The PRI retained a majority of local offices and municipal power, as smaller communities either sided with PRI politics or failed to escape cartel election coercion.⁹⁰ Moreover, in 2012 the PRI would again hold the presidency and re-establish its presence within the country, making clear that the dissipation of its power would require more than a few election losses.⁹¹ The marriage of convenience between the PRI and the cartel served as the catalyst for the PAN regime's efforts to end the *carte blanche* given to cartels in hopes of developing Mexico into a country free of corruption and cartel rule while in reality cultivating the opposite.

⁸⁸ *Ibid.*

⁸⁹ Shelley, L. (2001). Corruption and Organized Crime in Mexico in the Post-PRI Transition. *Journal of Contemporary Criminal Justice*, 17(3), 213-231.

⁹⁰ *Ibid.*

⁹¹ *Ibid.*

IV. The Dissolving of Cartel Protection

The fall of the PRI regime destabilized the Mexican political arena and dissolved the bubble of impunity granted to the cartel by the government at a national level. Between 2000 and 2012, Vicente Fox and his PAN successor Felipe Calderón attempted to reduce the level of corruption and violence within the country. Without PRI protection cartels were left exposed and violent territorial battles broke out.⁹² The war for drug smuggling routes and production plants consumed the country and murders occurred “an average of two a day since Fox assumed presidency”.⁹³ During Fox’s presidency, homicide rates in the country fluctuated with a decline between 2000 to 2004 and an increase between 2004 to 2006.⁹⁴ Violence persisted through Fox’s presidency and upon the induction of Calderón into office, he declared an official War on Drugs against the cartels and their subsidiary syndicates looking to extirpate their influence entirely.⁹⁵

V. The War on Drugs

The dangerous and costly negative externalities resulting from the inter-cartel crusade for territorial control provoked the PAN to militarize a War on Drugs as a means of reducing cartel power and increasing citizen safety jeopardized by the violence. The War on Drugs was in partnership with the United States Military to stifle drug trafficking over the border and shrink

⁹² Shirk, D., & Wallman, J. (2015). Understanding Mexico’s Drug Violence. *Journal of Conflict Resolution*, 59(8), 1348-1376. <https://doi.org/10.1177/002200271558704>

⁹³ Shelley, L. (2001). Corruption and Organized Crime in Mexico in the Post-PRI Transition. *Journal of Contemporary Criminal Justice*, 17(3), 213-231.

⁹⁴ The World Bank, Intentional homicides (per 100,000 people) - Mexico. Homicides per 100,000, Atlas method [CSV]. Retrieved from <https://data.worldbank.org/indicator/VC.IHR.PSRC.P5?locations=MX>

⁹⁵ Lakhani, Nina & Tirado, Erubiel. (2016, Dec 8). Mexico's war on drugs: what has it achieved and how is the US involved? *The Guardian*, Accessed 13 January 2024 from <https://www.theguardian.com/news/2016/dec/08/mexico-war-on-drugs-cost-achievements-us-billions>

the cartel sphere of influence.⁹⁶ While the war was successful in shutting down profitable routes and destabilizing a number of cartel branches through the murder and imprisonment of their high-level leaders, it inadvertently removed cartel competition allowing the top few to consolidate greater power and scale.⁹⁷ However, these newly concentrated cartels still had to contend with the substantial loss of trafficking routes and production plants leaving profits severely depressed.⁹⁸ As a result, cartels looked to offset lost profit by inserting themselves into various lucrative economic sectors, the main one being agriculture where profit margins varied, government oversight was minimal, and methods of corruption were easy to implement.

VI. Conclusion

Corruption in Mexico has become systemic, with the PRI government regime and cartels manipulating power structures to assert social domination for exploitive gain at the expense of the Mexican people. In the context of Mexico corrupt relationships and institutions can be seen between the government and its citizens, the government and the cartels, and the cartels and the general public. Given the pervasiveness of the relationships, corruption has become a seemingly inextricable part of the country with government officials and the national PRI regime using it for both personal and public gain.

Historically, the most notorious offender of corruption was the PRI political regime, which took over and established a democracy following decades of regime oscillation. The party

⁹⁶ Grayson, G. W. (2013). *THE IMPACT OF PRESIDENT FELIPE CALDERÓN'S WAR ON DRUGS ON THE ARMED FORCES: THE PROSPECTS FOR MEXICO'S "MILITARIZATION" AND BILATERAL RELATIONS*. Strategic Studies Institute, US Army War College. <http://www.jstor.org/stable/resrep11780>

⁹⁷ Osorio, J. (2015). The Contagion of Drug Violence: Spatiotemporal Dynamics of the Mexican War on Drugs. *Journal of Conflict Resolution*, 59(8), 1403-1432. <https://doi.org/10.1177/0022002715587048>

⁹⁸ Atuesta, L. H., Siordia, O. S., & Lajous, A. M. (2019). The "War on Drugs" in Mexico: (Official) Database of Events between December 2006 and November 2011. *Journal of Conflict Resolution*, 63(7), 1765-1789. <https://doi.org/10.1177/0022002718817093>

ruled for nearly seventy years unchallenged and established a number of corrupt self-preservation tactics ranging from bribery and punitive threats to asset seizures and violence at the expense of the Mexican people. PRI corruption quickly expanded beyond just taking advantage of its people and soon encompassed cartel relationships that were positioned to generate great individual profit. The government created a cycle of corruption in that (i) the cartel would provide money in bribes to PRI officials; (ii) the PRI and the cartels would use those funds and pressure on voters to drive election victories, and (iii) the PRI government would turn a blind eye and let the cartel operate as they please; (iv) which would then provide even more bribes and voter corruption by the cartels to keep the PRI in power. However, this corrupt cycle reduced overall economic productivity as industries and citizens faced punitive taxes and fines by the cartel to guarantee safety and were forced to work within the confines of what the cartel deemed acceptable activity. The interdependent relationship between the PRI and the cartels threatened civilian livelihood and propagated the acceptance of corruption and drug distribution throughout Mexico. The PRI was able to remain an unchallengeable regime until economic factors pushed civilian tensions to a breaking point. The underperformance of the economy and the destitution of successful rural economies made it such that opposing the PRI government, a powerful longstanding regime, was more beneficial fiscally and from a safety perspective than continuing to support the regime.

The fall of the PRI was not severe, however, its normalization of corruption and cartel influence provides the context of why the abrupt economic policy changes and attempted eradication of the cartel by the PAN government were so difficult. The PAN promise to abolish corruption and mitigate cartel violence failed to serve its intended purpose. Instead, the party facilitated the inverse and allowed the cartels to consolidate power and eliminate competition.

This in turn forced more extreme measures to be taken to reach the promised outcome—catalyzing the War on Drugs. While the War held up on its promise to decrease drug trafficking, it failed to decrease cartel presence, instead allowing it to shift and permeate into other less government-regulated industries such as agriculture. The regime change and institutionalization of corruption that stained the country even after the PRI's removal ultimately served as a great disservice to the country: putting more civilians in danger, allowing cartels to expand and integrate into new sectors, and depressing the overall economy.

Chapter Three: Cocaine to Corn and Back Again

I. Introduction

This chapter examines why the agricultural sector of Mexico was easily infiltrated by cartel members and what initiated their shift into the industry. The cartel's entrance into agriculture was catalyzed by more than symbiotic relationships with the state, rather they flourished due to government failures to protect and insulate the agricultural sector from foreign trade and predatory pricing. Early subsidy reduction, farmer support program shutdowns, and farming privatization altered the competitive landscape of the industry in a way that favored larger private companies and disadvantaged smaller rural farms. The Mexican agriculture industry struggled even more to perform and be profitable for its farmers upon the country's entrance into the NAFTA agreement. NAFTA opened borders for trade throughout North America and left Mexico at a comparative disadvantage for the majority of their crops and many farmers suffered a profit cut as a result. The rapid influx of trade and decreased pricing forced another wave of farmers to exit the industry, leaving their land and production capacity up for sale.

The following chapter delves into the detrimental impact of mismanagement and oversight within the PRI regime regarding Mexico's agricultural sector and the exacerbation of cartel infiltration. The chapter traces shifts in agricultural policy from the 1960s, which prioritized aiding urban consumers over supporting farmers, leading to increased farming costs and the displacement of small producers. Economic challenges, including the 1980s debt crisis and subsequent trade liberalization efforts, further weakened the sector by diverting resources away from agriculture. The 1990s saw additional shocks, including a currency crisis and the

defunding of vital agricultural support programs like CONASUPO. Privatization of communal farming lands and the dismantling of CONASUPO exacerbated the sector's decline, pushing millions out of agriculture and paving the way for cartel involvement. Additionally, it looks at the innerworkings of the cartel and examines how operations and production changed following the implementation of NAFTA and the liberalization of Mexico's economy. This chapter sets the stage for understanding how NAFTA, discussed in the subsequent chapter, significantly impacted Mexico's agricultural economy and its susceptibility to cartel influence.

II. PRI and Agricultural Mismanagement

In addition to the PRI regime's oversight and mismanagement of cartel relationships, a failure to insulate the agriculture sector from policy shifts and macroeconomic shocks weakened the industry and allowed for greater cartel infiltration. In the 1960s, the state shifted subsidies and payment support programs aimed at aiding farmers and their production levels instead of lowering the prices of food for the urban working class.⁹⁹ The lack of government backed support in turn raised the cost of farming, forced out hundreds of thousands of small producers, and further hurt an already struggling agricultural sector.

Prior to the country's entrance into NAFTA, Mexico faced a number of severe economic challenges that were detrimental to the productivity and success of the economy as a whole and particularly disruptive to the agricultural sector. During the 1980s, Mexico faced a severe debt crisis as they failed to address and finance their foreign loans and agreements in an effort to

⁹⁹ Sanderson, S. E. (1986). *The Transformation of Mexican Agriculture: International Structure and the Politics of Rural Change*. Princeton University Press. <http://www.jstor.org/stable/j.ctt7zts06>

reallocate funding to ameliorate a worsening poverty issue.¹⁰⁰ As a result, the majority of state resources were put towards greater industrialization and trade liberalization looking to restimulate the economy, grow foreign trade relations, and offset the accrued debt.¹⁰¹ Specifically, this took a toll on agriculture as it shifted even more funding into manufacturing and technological developments and out of farming and horticulture, which dropped production rates and decreased aid.

The macroeconomic shocks continued into the 1990s as a currency crisis devalued the Mexican peso and forced even greater and more rapid economic restructuring. With economic policy moving towards greater trade liberalization, Mexico saw a rapid influx of foreign investors as confidence increased surrounding the projected success of the country's more liberalized economy.¹⁰² Additionally, the government's push towards privatization and labor agreements made investments in Mexico seem highly lucrative and in turn allowed for inflation rates to fall and exchange rate valuations to appreciate.¹⁰³ However, during this time the peso fluctuated immensely against the US dollar eventually plummeting in 1994, sending Mexico into an extreme currency crisis.¹⁰⁴ Not long after presidential candidate Luis Donaldo Colosio, a leader in Mexico's economic restructuring and favored candidate, was assassinated.¹⁰⁵ These two coinciding events shook economic confidence and catalyzed a chain reaction of investment

¹⁰⁰ Angeles Villarreal, M., Marisabel, Cid. (2008). *NAFTA and the Mexican Economy*, Congressional Research Service: CRS Report for Congress. <https://ecommons.cornell.edu/server/api/core/bitstreams/fa1cca83-6c70-4214-9890-d3ed7cb43cd1/content>

¹⁰¹ *Ibid.*

¹⁰² *Ibid.*

¹⁰³ Edwards, Sebastian., Savastano, Miguel A. (2000). *Currency Crises: The Mexican Peso in the Aftermath of the 1994 Currency Crisis*. University of Chicago Press, ISBN: 0-226-45462-2, p. 183-236, <http://www.nber.org/chapters/c8693>

¹⁰⁴ *Ibid.*

¹⁰⁵ Angeles Villarreal, M., Marisabel, Cid. (2008). *NAFTA and the Mexican Economy*, Congressional Research Service: CRS Report for Congress. <https://ecommons.cornell.edu/server/api/core/bitstreams/fa1cca83-6c70-4214-9890-d3ed7cb43cd1/content>

retraction. This left Mexico without the cashflow they needed to continue economic restructuring and rebuild their economy, forcing them to cut government expenditures even further which ultimately led to the defunding of the National Company of Popular Subsistence (CONASUPO), an organization that supported farmers and Mexico's agriculture sector as a whole.

In 1992, the Mexican government decision to permit the privatization and sale of communal farming lands, ejidos, that displaced millions and allowed for larger wealthy farmers to consolidate land and power.¹⁰⁶ This shrunk the agricultural production capacity of the country and made farming far more competitive of an industry and very difficult for family farmers to compete with large, heavily funded, and economically well positioned mega-farms. As a means of aiding smaller farms the government put into place the aforementioned CONASUPO program. CONASUPO acted as a lifeline to farmers within Mexico as the agency set guaranteed prices that any farmer could sell to them and receive should they be unable to compete in the open market.¹⁰⁷ This allowed for smaller farmers to better compete with larger conglomerates and incentivized greater agricultural production rates by guaranteeing that crops could be sold. Thus, the government's decision to defund the program in 1999 was a financial burden to many rural farms and dropped production rates. Both the privatization of farming land and the dismantling of CONASUPO resulted in a sectoral performance dip and forced millions of Mexicans out of the industry entirely as they struggled to keep pace with where the sector once was in the late 1800s and early 1900s. The domestic underperformance encouraged the

¹⁰⁶ Staudt, K. (2018). *How NAFTA Has Changed Mexico. Current History*, 117(796), 43–48.
<https://web.p.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=0&sid=bbea667b-b285-474d-9044-73f2a329d50e%40redis>

¹⁰⁷ Yúñez Naude, Antonio, and J. Edward Taylor. (2006). *The Effects of NAFTA and Domestic Reforms in the Agriculture of Mexico: Predictions and Facts, Région et Développement*, No. 23-2006, p. 163,
https://www.researchgate.net/publication/227626864_THE_EFFECTS_OF_NAFTA_AND_DOMESTIC_REFORMS_IN_THE_AGRICULTURE_OF_MEXICO_PREDICTIONS_AND_FACTS

government to take a vested interest in investing outside agriculture.¹⁰⁸ The reallocation of oversight and resources from agriculture depressed the industry's performance even more and left it riddled with funding and sustainability issues, leaving an opportunity for the cartel's entrance.

III. NAFTA

One of the most pivotal moments that allowed cartels to migrate into the agricultural sector was the enactment of the North American Free Trade Agreement (NAFTA) on January 1st, 1994.¹⁰⁹ NAFTA was built off of an earlier trade agreement between the United States and Canada in 1989 to expand and now include Mexico.¹¹⁰ The new agreement progressively removed all tariffs along with duties and quantitative restrictions between the three countries in hopes of bolstering all three economies and encouraging greater trade with lower prices.¹¹¹ The new agreement restructured all three North American countries' economies and business practices with agriculture and manufacturing being the most prominently affected.¹¹² Agriculture across the three countries grew immensely as both imports and exports increased and total trade value jumped from \$16.7 billion in 1993 the year before NAFTA induction to \$82.0 billion in 2013.¹¹³ However, what proved to be detrimental to the Mexican agricultural economy was their

¹⁰⁸ Sanderson, S. E. (1986). *The Transformation of Mexican Agriculture: International Structure and the Politics of Rural Change*. Princeton University Press. <http://www.jstor.org/stable/j.ctt7zts06>

¹⁰⁹ Office of the United States Trade Representative. (n.d.). *North American Free Trade Agreement (NAFTA)*. <https://ustr.gov/about-us/policy-offices/press-office/ustr-archives/north-american-free-trade-agreement-nafta#:~:text=The%20United%20States%20commenced%20bilateral,force%20on%20January%201%2C%201994.>

¹¹⁰ *Ibid.*

¹¹¹ *Ibid.*

¹¹² Blecker, R. A. (2014). *The Mexican and U.S. Economies After Twenty Years of NAFTA*. *International Journal of Political Economy*, 43(2), 5–26. <http://www.jstor.org/stable/24696555>

¹¹³ Zahniser, Steven., Angadjivand, Sahar., Hertz, Tom., Kuberka, Lindsay., Santos, Alexandra. (2015). NAFTA at 20: North America's Free-Trade Area and Its Impact on Agriculture, *United States Department of Agriculture*, https://www.ers.usda.gov/webdocs/outlooks/40485/51265_wrs-15-01.pdf?v=4163.2

inability to compete with lower-priced imports— namely US corn.¹¹⁴ The cheaper imports priced local small farms and *ejidos*, family plots, out of the market, leaving them impoverished and their land to be purchased by larger farming conglomerates.¹¹⁵ As a result, and which will be discussed in the following chapter, these smaller farms were forced to supplement their income many of whom turned to the cartels to do so.

All three countries saw economic growth through NAFTA, however, Mexico still seemed to suffer disproportionately. One hypothesis for the misalignment places the blame on the Mexican government for failing to adequately protect the Mexican labor force and economy through policy and structural reform as well as border security.¹¹⁶ Once NAFTA went into place, Mexican exports “tripled in dollar terms between 1993 and 2002” marking one of the most significant trade increases in the country’s history.¹¹⁷ While this bolstered the national GDP and economy, the dramatically increased trade also presented a national security issue. Southern border security was slowly relaxed to alleviate congestion as product flow between the US and Mexico grew. However, a more open border presented an opportunity for drug traffickers and the cartel to capitalize and increase smuggling operations over the border.¹¹⁸ As a result, cartel activity grew and violence increased as cartel families fought for greater control of new routes and sought to increase their production capabilities, putting the people of Mexico in harm's

¹¹⁴ Staudt, K. (2018). *How NAFTA Has Changed Mexico. Current History*, 117(796), 43–48.
<https://web.p.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=0&sid=bbea667b-b285-474d-9044-73f2a329d50e%40redis>

¹¹⁵ *Ibid.*

¹¹⁶ Ayhan Kose, M., Meredith, G.M., Towe, C.M. (2005). *How Has NAFTA Affected the Mexican Economy? Review and Evidence*. In: Langhammer, R.J., de Souza, L.V. (eds) *Monetary Policy and Macroeconomic Stabilization in Latin America*. Springer, Berlin, Heidelberg. https://doi.org/10.1007/3-540-28201-7_3

¹¹⁷ *Ibid.*

¹¹⁸ Staudt, K. (2018). *How NAFTA Has Changed Mexico. Current History*, 117(796), 43–48.
<https://web.p.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=0&sid=bbea667b-b285-474d-9044-73f2a329d50e%40redis>

way.¹¹⁹ The cartel proved to be dangerous in the years after NAFTA as previously outlined relationships with the PRI allowed for little intervention in exchange for money. The ability to operate without government intervention allowed for revenue to increase rapidly during this time and disincentivized cracking down on the cartel even further.¹²⁰ While the entrance into NAFTA was meant to bolster the Mexican economy, it instead subsidized the country's illicit economy and allowed for cartel activity to flourish.

IV. Cartel Operations

The interworking of cartels and the details behind their day-to-day operations are veiled, given the illegality of the industry and the necessity to alter production patterns and habits out of self-preservation. As briefly touched on earlier, cartels grew in popularity throughout the country during the prohibition era as American demand for alcohol encouraged them to spread. While they existed in a smaller capacity regarding drug smuggling and production at the time, the banning of alcohol within the United States provided the cartel with a national market and catalyzed smuggling across the border.¹²¹ When prohibition formally ended in 1933, a network of international smuggling had been established and a clear foreign demand laid the groundwork for some of Mexico's largest cartels to launch into international drug trafficking—namely into the United States.

¹¹⁹ Hidalgo, Eduardo and Hornung, Erik and Selaya, Pablo. (2022). *NAFTA and Drug-Related Violence in Mexico*. CESifo Working Paper No. 9981, Available at SSRN: <https://ssrn.com/abstract=4241621> or <http://dx.doi.org/10.2139/ssrn.4241621>

¹²⁰ *Ibid.*

¹²¹ Harp, Seth. (2010). GLOBALIZATION OF THE U.S. BLACK MARKET: PROHIBITION, THE WAR ON DRUGS, AND THE CASE OF MEXICO. *New York University Law Review*, <https://www.nyulawreview.org/wp-content/uploads/2018/08/NYULawReview-85-5-Harp.pdf>

An integral part of the success of Mexico's cartels in establishing large, highly dangerous, and specialized drug production and trafficking syndicates lies in their leadership. As discussed in the "Oxford Handbook of Organized Crime," some of the most notorious cartel kingpins were former cops, military heads, and militia members.¹²² Their specialized training in tactile defense, criminal interrogations, and drug crackdowns provided those who chose to leave with a unique skill set and an understanding of how to avoid being caught, how to take advantage of the government systems for which they used to work, and with a source to recruit other individuals with similar skillsets.¹²³ The catalyst for leaving came from a frustration of operating underneath the government and receiving little pay, thus incentivizing individuals to split and defect to drug production and trafficking as it offered higher profit margins and greater payoffs.¹²⁴ The motive to enter a highly dangerous and illegal industry on the pretenses of greater individual profit provides background into the financial decision-making of cartels as a whole as discussed in Chapter 1: cartels are profit-motivated.¹²⁵

Thus, the operational and framework decisions that cartels employ in the drug production and trafficking process all work towards profit maximization. Much of the regional control that competing cartels fight ruthlessly over has to do with the money that can be made— whether that be from large extortion taxes on successful hotels and touristy restaurants or lucrative farmlands and smuggling routes that are situated closer to the border.¹²⁶ In the early and mid-1900s, cartels made the majority of their money through human trafficking, extortion, and partnerships with

¹²² Paoli, Letizia. *The oxford handbook of organized crime*. (2014). Oxford University Press. Pg. 196-197

¹²³ Paoli, Letizia. *The oxford handbook of organized crime*. (2014). Oxford University Press. Pg. 196-197

¹²⁴ Paoli, Letizia. *The oxford handbook of organized crime*. (2014). Oxford University Press. Pg. 198-200

¹²⁵ Levitt, Steven D., Venkatesh, Sudhir Alladi. (2000, August). An Economic Analysis of a Drug-Selling Gang's Finances, *The Quarterly Journal of Economics*, 115(3), Pages 755–789, <https://doi.org/10.1162/003355300554908>

¹²⁶ Felbab-Brown, Vanda. (2022, April 4). How the Sinaloa Cartel rules, *Brookings*. <https://www.brookings.edu/articles/how-the-sinaloa-cartel-rules/>

Colombia's large cocaine cartels, distributing what they could over the US-Mexican border.¹²⁷ The cartel was concentrated primarily within black market activities at this time except for one exception: agriculture.

Before NAFTA opened markets and allowed cartels to expand into other industries, agriculture was a major competitor to the organizations production capacity given its importance for their success in drug smuggling as well as the importance for the economy as a whole in producing licit crops to send abroad. At this time, cartel reach was limited to extortion and some production capacity control and they mainly relied upon coercing struggling farmers to grow drug crops rather than corn or a licit substitute. However, the enactment of NAFTA restructured the Mexican economy as well as the cartel's role within it. The internationalization of Mexico's economy meant easier cross-border trade, deregulation in a number of industries including transportation, lumber, agriculture, and telecommunications, and more economic integration between the United States, Mexico, and Canada.¹²⁸ These distinct changes led to immense growth in the profits that cartels realized by increasing trafficking opportunities and allowed them to expand their operations more broadly into other industries that also exported across the border frequently. Agriculture, lumber, and transportation were the main three selected given their proximity to drug production and their desirability within the United States.¹²⁹ With the PRI regime in power at the time, the cartel was able to metastasize throughout these sectors and take advantage of Mexico's new "export-oriented" economy, establishing control and expanding their operations with unspoken permission from the government.¹³⁰

¹²⁷ Levitt, Steven D., Venkatesh, Sudhir Alladi. (2000, August). An Economic Analysis of a Drug-Selling Gang's Finances, *The Quarterly Journal of Economics*, 115(3), Pages 755–789, <https://doi.org/10.1162/003355300554908>

¹²⁸ Thornton, Christy., Goodman, Adam. (2014, July 15). *The Nation*. <https://www.thenation.com/article/archive/how-mexican-drug-trade-thrives-free-trade/>

¹²⁹ *Ibid.*

¹³⁰ *Ibid.*

The biggest winner of NAFTA was neither the United States nor Mexico. Rather, it was the cartel that saw massive profit increases, production expansions, and industry takeovers. A 2014 study done by the Center for Economic and Policy Research implies that since NAFTA's enactment, the number of Mexicans living in poverty increased by 14.3 million as for the past twenty years the national poverty rate has hovered at 52% while the population has continued to climb.¹³¹ Within agriculture, 4.9 million jobs were lost as family farmers were priced out of the economy and left to struggle as the government exited the sector allowing the cartel to usurp nearly all control.¹³² They positioned themselves such that all agricultural production was overseen by at least one fractile of the cartel—ensuring that farmers pay extortion taxes, pay extra for natural resources, produce a certain amount of drug crops, or cut in the cartel for revenues made on highly profitable crops such as avocados or limes.¹³³ Similarly, the scale of agricultural exports now entering the United States from Mexico post-NAFTA skyrocketed and allowed the cartel to easily smuggle drugs both within the food as well as profiting off of highly purchased goods within the states.¹³⁴ Under the PRI, the cartel was able to capitalize upon the internationalization of trade and the liberalization of Mexico's economy expanding their operations and providing new revenue-generation opportunities that made the organization and its individuals richer, and able to last for years to come.

¹³¹ Weisbrot, Mark., Lefebvre, Stephan., Sammut, Joseph. (2014, February). Did NAFTA Help Mexico? An Assessment After 20 Years. Center for Economic and Policy Research, <https://www.thenation.com/wp-content/uploads/2015/03/nafta-20-years-2014-022.pdf>

¹³² Thornton, Christy., Goodman, Adam. (2014, July 15). *The Nation*. <https://www.thenation.com/article/archive/how-mexican-drug-trade-thrives-free-trade/>

¹³³ Henkin, Samuel. (n.d) *Tracking Cartels Infographic Series: The Pits: Violence in Michoacán Over Control of Avocado Trade*. National Consortium for the Study of Terrorism and Responses to Terrorism. <https://www.start.umd.edu/tracking-cartels-infographic-series-pits-violence-michoac-n-over-control-avocado-trade>

¹³⁴ Campa, Andrew J. (2023, Dec 18). Meth and cocaine dipped in jalapeño paste? 349 bags of drugs extracted, carefully, in San Diego. *The Los Angeles Times*. <https://www.latimes.com/california/story/2023-12-18/jalapeno-paste-search-leads-to-narcotics-bust>

The same policy meant to restructure the Mexican economy inadvertently led to a restructuring in the nation's political system. The PRI began to fall as approval ratings dropped due to the economic failures resulting from the rush into NAFTA. Slowly, the PAN –Mexico's conservative party– climbed into power on the promise of restoring economic stability and taking down the cartel.¹³⁵ However, navigating the complexities of Mexico's socio-political landscape proved challenging, as the PAN faced resistance from entrenched interests and deep-seated systemic issues. The party launched the War on Drugs, a direct response to the rapid cartel growth catalyzed by NAFTA, with the hopes of quelling cartel violence and slowly removing them from economic and political control. However, this mission struggled given the breadth of cartel activity and their heightened economic success which allowed them to outspend the government in self-defense.¹³⁶ By 2008, Mexico's cartels were the "fifth-largest employer" with the drug trade being the main job provider within the organization.¹³⁷ Despite these obstacles, the PAN's ascent marked a significant shift in Mexican politics, reflecting a growing demand for change and accountability among the populace.

V. Economic Effects

The economic effects of NAFTA and the challenges rural farmers were forced to confront as a result highlight the dependence of farmers on foreign policy, as it dictates pricing and income and makes clear why government mismanagement of the sector is dangerous.

Authors Blecker and Yunez-Naude both illustrate the effects of increased trade liberalization and

¹³⁵ Balmori de la Miyar, J. (2016). The Economic Consequences of the Mexican Drug War. *Peace Economics, Peace Science and Public Policy*, 22(3), 213-246. <https://doi.org/10.1515/peps-2016-0014>

¹³⁶ *Ibid.*

¹³⁷ Thornton, Christy., Goodman, Adam. (2014, July 15). *The Nation*. <https://www.thenation.com/article/archive/how-mexican-drug-trade-thrives-free-trade/>

insufficient government aid as being correlated with greater income inequality and thus defection toward corruption. They argue that Mexican state aid and subsidy programs failed to help smaller farms and instead forced them out of the industry, which further plummeted their profits, and worsened income inequality.¹³⁸

VI. Conclusion

The enactment of NAFTA entirely restructured the economic and political landscape of the agricultural industry. It allowed for greater trade and increased industrial development, however, it was done at the expense of much of the rural farming industry within Mexico. The rapid influx of trade was not adequately prepared for by either the state or farmers, as products that were once successfully traded now struggled to compete on the open market. As a result, millions of farmers lost their jobs and products, forcing them to sell their land to large farming conglomerates and consolidating power within the agriculture industry. Similarly, with less funding flowing into agricultural government aid, programs could not match demand, and many farms were forced to sellout as a means of staying afloat. The little oversight and lack of economic protection ultimately destabilized the agriculture industry, depressed its performance, and allowed it to be easily overtaken by the cartel. The consequences of these policy shifts have been devastating for rural communities, leading to widespread unemployment, economic hardship, and social upheaval.

While NAFTA aimed to stimulate economic growth and integration, it unwittingly facilitated the expansion and dominance of cartels, particularly within sectors like agriculture. This rise of cartels as major economic players not only reshaped the socio-economic landscape

¹³⁸ Yunez–Naude, A. (2003), The Dismantling of CONASUPO, a Mexican State Trader in Agriculture. *World Economy*, 26(1), 97-122. <https://doi.org/10.1111/1467-9701.00512>

but also precipitated a struggle for power between traditional parties such as the PRI and emerging forces like the PAN. Despite concerted efforts to curb cartel influence through initiatives like the War on Drugs, the entrenched power and economic clout of these criminal organizations continue to present formidable challenges to Mexican governance and stability. The unintended consequences of NAFTA's implementation have underscored the complexities and vulnerabilities inherent in Mexico's agricultural sector, highlighting the need for comprehensive reforms and sustained efforts to address systemic issues of corruption, inequality, and institutional weakness. As Mexico grapples with these challenges, it faces a critical juncture in shaping the future of its agricultural industry and charting a path toward sustainable development and inclusive growth.

Chapter Four: Cartel-onomics

I. Introduction

The cartel's entrance into the Mexican agriculture sector has sparked a myriad of questions as to why. Many economic discussions have centered around finding an answer to *why* with many attributing the cartel's entrance to NAFTA, the War on Drugs, or governmental failures. The North American Free Trade Agreement (NAFTA) was hailed as a landmark agreement, promising economic prosperity and growth across its signatory nations. However, as the previous chapter delved into, the implementation of NAFTA had profound and unintended consequences, particularly for Mexico's agricultural sector as global market prices plummeted, Mexican farmers, especially those cultivating crops like corn, faced dire financial straits, leading to significant decline in agricultural employment. In turn, many farmers left to work for the cartel.

The repercussions of NAFTA's impact on Mexican agriculture reverberated far beyond economic downturns. The vacuum left by governmental support prompted the infiltration of cartels, offering struggling farmers lucrative alternatives through illicit activities such as drug production. The cartel's exploitation of depressed agricultural prices further exacerbated the decline in legal farming, perpetuating a cycle of economic substitution and income disparity between legal crops and drug cultivation. Secondly, NAFTA's enactment facilitated a surge in illicit trade, particularly in drugs, along the United States-Mexico border. The newfound ease of trade inadvertently reduced inspection points, fostering an environment for smuggling. The resultant increase in drug trafficking not only bolstered cartel revenues but also ignited a surge in violence as factions vied for control over lucrative smuggling routes.

As cartels expanded their presence and influence, Mexico's agricultural economy experienced profound fluctuations. Periods of heightened violence and cartel activity correlated with stagnation and decreased growth in agricultural exports, underscoring the detrimental impact of illicit trade on legitimate industries. This chapter explores the interplay between NAFTA's economic liberalization, cartel infiltration, and the subsequent War on Drugs, shedding light on the complex socio-economic dynamics that continue to shape Mexico's agricultural landscape and evaluating which even event had the largest effect on Mexico's agricultural performance, and which allowed for greater cartel infiltration.

II. NAFTA & Economic Internationalization

The previous chapter talked in depth about the passing of NAFTA and the ramifications that were felt throughout Mexico and its agricultural sector. Ultimately, as international trade increased prices were driven down in the global market, and products that Mexico did not have a comparative advantage in making suffered immensely to be profitable for farmers, which included a number of crops including Mexico's main export corn. NAFTA was expected to boost the national economy, which to some extent it did within manufacturing, however for agriculture it proved to hurt farmers and the industry as a whole. During the 2013 United Nations Conference on Trade and Development, the UN released a report highlighting Mexico's declining employment levels in agriculture throughout the country.¹³⁹ Starting in 1993, Figure A shows a downward trend in agricultural employment with a drop of over half a million jobs between 1994 and 1995, the year directly after NAFTA went into effect and when it was

¹³⁹ United Nations Conference on Trade and Development. (2013). MEXICO'S AGRICULTURE DEVELOPMENT: Perspectives and outlook, (Geneva: United Nations, 2013), available from https://unctad.org/system/files/official-document/ditctncd2012d2_en.pdf

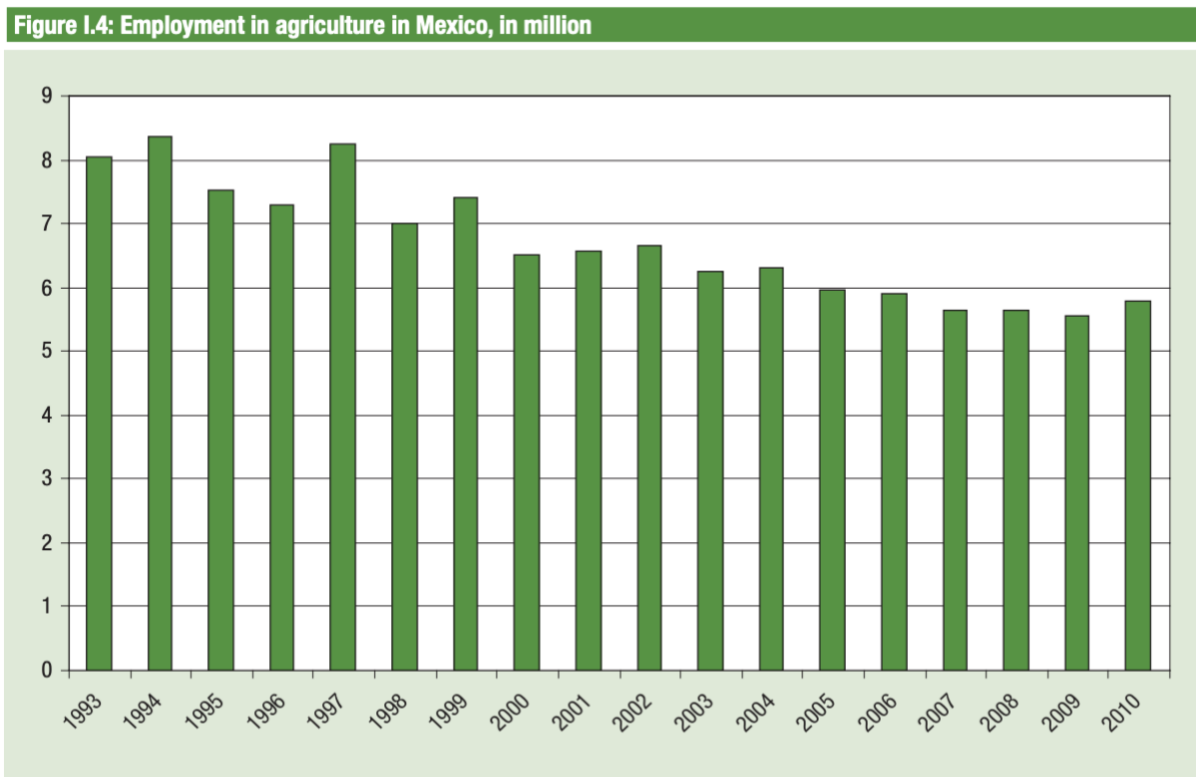
speculated that jobs would increase.¹⁴⁰ When considering the economic effects of NAFTA, a decrease in labor is not unexpected given that the dependency on international market prices for income as a rural farmer left many exposed and without support when prices fluctuated. Thus, when prices and revenue did drop, many rural farmers lost their jobs and found greater marginal benefits in moving to urban city centers, moving away from farming, or accepting the ancillary sources of income offered by the cartel.¹⁴¹ Some rural municipios saw population declines between 50% and 80% of their total population.¹⁴² The failures of the government to protect the agriculture industry through support programs or remunerative policies opened the door for the cartel to intervene and act as a farming support system.

¹⁴⁰ *Ibid.*

¹⁴¹ Herrera, Joel Salvador., & Marinez-Alvarez, Cesar B. (2022). Diversifying violence: Mining, export-agriculture, and criminal governance in Mexico, *World Development*, 151, <https://doi.org/10.1016/j.worlddev.2021.105769>

¹⁴² Lorenzen, M. (2022). From rural exodus to repopulation in Mexico's Mixteca Alta? Analyzing differential trends. *Population, Space and Place*, 28, e2559. <https://doi.org/10.1002/psp.2559>

FIGURE A



Source: OECD Labour force statistics
 Note: Break in 2004

NAFTA and its economic failures in agriculture opened the doors for cartel involvement within the industry in ways that were previously not feasible as a result of government regulation. Cartels allowed farmers struggling to make money to defect from licit crop growth to drug farming and development instead, which quickly became a popular alternative given that drug production was far more lucrative than traditional farming and offered a new way to survive.¹⁴³ With the knowledge that rural income is closely correlated to international market prices of agricultural goods, the cartel was able to institute income substitutions by offering payment in return for farmers growing opium poppies and marijuana or chemically creating meth

¹⁴³ *Ibid.*

to be distributed through cartel smuggling networks in the United States.¹⁴⁴ NAFTA trade liberalization dropped prices specifically in corn leading to the expounding of urban-to-rural income inequality and incentivizing many to go into illicit cartel deals as a means of abating their profit loss. The cartel's monopsony requires drug-producing farmers to be price takers within the market, meaning that regardless of what the cartel offers the farmers as compensation, they are forced to accept. With cartel-farmer mutually dependent relationships ossified, economic substitution and income effects formed between drugs and corn in that as corn prices fell, drug production and smuggling increased.¹⁴⁵

The infiltration of the cartel into the agriculture industry was spurred by the trade liberalization of NAFTA as it increased their revenue streams and expanded their operations throughout rural Mexico. Simultaneously, rural farmers became siloed into cartel activities to offset income disparities aggravated by the government. As prices of corn varied farmer wages did as well with high market prices allowing for farmers to earn more and inversely lower prices forcing farmers to take home less. As such, with NAFTA dropping corn prices and wages subsequently falling, farmers were incentivized to spend more time on other revenue-generating activities, namely drug production.¹⁴⁶ Oeindrila Dube, Omar García-Ponce, and Kevin Thom write that the farm gate price, the price for the sale of farm produce directly from the producer, is set based on aggregate local farmer supply curves and the international market price of the crop being sold. Once farmers reach a point where the marginal cost of producing legal goods is greater than the marginal benefit derived they turn to cartels. Specifically, they write that “When

¹⁴⁴ Dube, Oeindrila., García-Ponce, Omar., & Thom, Kevin. (2014). From Maize to Haze: Agricultural Shocks and the Growth of the Mexican Drug Sector, *Center for Global Development*, <http://www.cgdev.org/>

¹⁴⁵ *Ibid.*

¹⁴⁶ Dube, Oeindrila., García-Ponce, Omar., & Thom, Kevin. (2014). From Maize to Haze: Agricultural Shocks and the Growth of the Mexican Drug Sector, *Center for Global Development*, <http://www.cgdev.org/>

the value of alternate income-generating activities falls, as is the case when the maize price declines, cartels can exploit their monopsony power, reduce the farm gate price, and extract greater surplus from their suppliers.”¹⁴⁷ The cartel’s strategy of capitalizing on depressed agricultural prices and driving down farmer revenue to force defections to drug production illustrates that cartels, post-NAFTA, intentionally select already struggling rural farming sectors as targets for production expansion.

Macroeconomic and Microeconomic Effects

The economic shocks at both macroeconomic and microeconomic ultimately allowed for cartels to enter into industries such as agriculture and expand their territorial control. Thus, cartels cannot be attributed entirely to the depressed agricultural economic performance immediately following NAFTA. The limited protective policies surrounding the agriculture industry and free trade was the ultimate driver in the poor performance of the sector as a whole. From a macroeconomic perspective, NAFTA significantly increased Mexico’s trade capacity on a national scale though it simultaneously depressed agricultural exports.¹⁴⁸ At such a scale the effects of cartel infiltration are not as impactful given that Mexico’s larger industries offset much of the economic losses that they cause.¹⁴⁹ Conversely, through a microeconomic perspective the effects of the cartel are more closely felt. NAFTA allowed for cartels to overtake small family owned farms and drive them out of the sector, thus decreasing local productivity levels, revenue

¹⁴⁷ *Ibid.*

¹⁴⁸ *Ibid.*

¹⁴⁹ Larue, J. Patrick. (2000). The ill-icit effects of nafta: increased drug trafficking into the united states through the southwest border. *Currents: International Trade Law Journal*, 9(1), 38-48.
https://heinonline.org/HOL/Page?handle=hein.journals/curritlj9&div=9&g_sent=1&casa_token=&collection=journals

generation, and local GDP levels.¹⁵⁰ Cartel presence exacerbated the declined production rates as the farmers who were still producing regardless of the price drops were then encouraged to switch to drug production instead, which further dropped Mexico's agricultural productivity.

III. War on Drugs

The new era of openness between the United States and Mexico after the enactment of NAFTA had far greater downstream effects than the initial goal of increasing trade and economic production for the two countries. Rather, the increased ease of trade for global market goods reduced inspection points and decreased border security which simultaneously strengthened an illegal trade of illicit goods— guns, drugs, and migrants.¹⁵¹ The promulgation of the free trade agreement ultimately drove down the cost of drug trafficking making the illicit industry more lucrative and inherently encouraging its expansion. Consequently, however, as drug demand rose¹⁵² and cost fell, control over smuggling routes and production capacity became valuable and violence increased as individuals and cartels fought to remain in control.¹⁵³ Figure B below illustrates that following NAFTA's enactment in 1994, the base farmgate price for the coca plant—used to make cocaine— saw a dramatic increase within Colombia, Mexico's main cocaine supplier,¹⁵⁴ prior to seeing an equally steep drop and gradual decline. Such a trend is not unexpected given the aforementioned conditions, and though its production remains concentrated

¹⁵⁰ *Ibid.*

¹⁵¹ Hidalgo, Eduardo., Hornung, Erik., Selaya, Pablo. (2022). NAFTA and drug-related violence in Mexico, *Centre for Economic Policy Research*. ISSN 0265-8003, <https://repec.cepr.org/repec/cpr/ceprdp/DP17608.pdf>

¹⁵² Demand for drugs are not explicitly reported however it can be inferred by looking at market price and cost of the drugs. As price rise, it implies that more is being sold on the market and thus demand allows for a higher price to be set. When price falls the inverse is considered to be true.

¹⁵³ Hidalgo, Eduardo., Hornung, Erik., Selaya, Pablo. (2022). NAFTA and drug-related violence in Mexico, *Centre for Economic Policy Research*. ISSN 0265-8003, <https://repec.cepr.org/repec/cpr/ceprdp/DP17608.pdf>

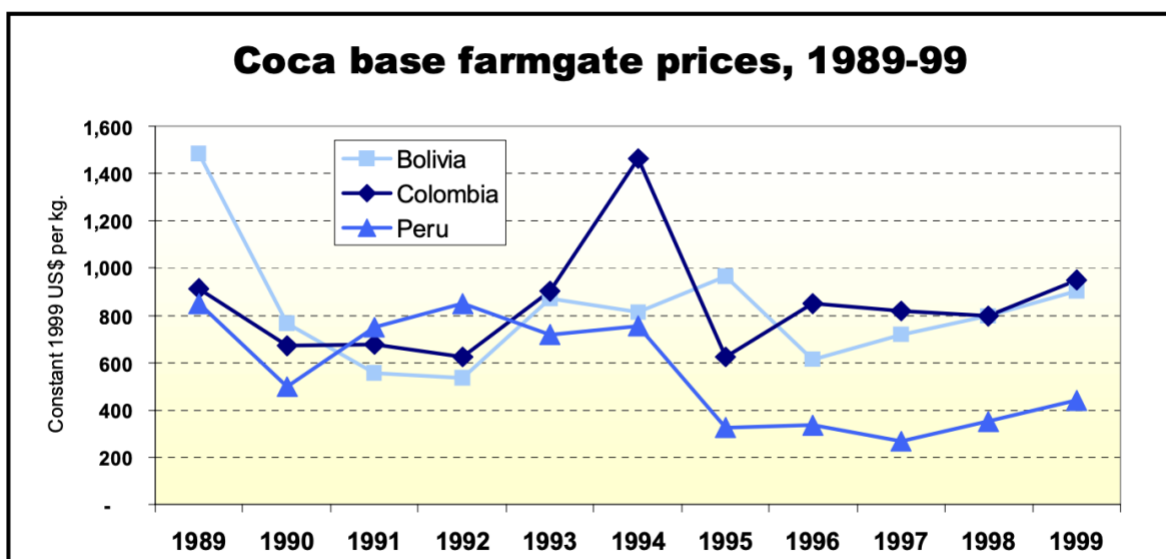
¹⁵⁴ Acosta, Luis J. (2020). Four Mexican drug cartels top buyers and traffickers of Colombian cocaine, official says, *Reuters*, <https://www.reuters.com/article/idUSKBN2772G5/>

outside of Mexico, the South West border between the United States and Mexico served as the main trafficking point into the US highlighting that the demand and price hike is tied to US consumption and demand and the subsequent decrease can be attributed to the saturation of the cocaine market driving prices down.^{155,156} The desire to traffic drugs across the border and realize lucrative profits has turned the border region into what author J. Patrick Larue coined “The Fourth Country of NAFTA,” a lawless zone in which drug traffickers have capitalized upon liberalized trade by investing in, and hiding behind, legitimized companies and industries such as trucking to ensure their product reaches the United States.¹⁵⁷

¹⁵⁵ United Nations Office for Drug Control and Crime Prevention. (2000). *ODCCP Studies on Drugs and Crime: Global Illicit Drug Trends 2000*. https://www.unodc.org/pdf/report_2000-09-21_1.pdf

¹⁵⁶ Brouwer, K. C., Case, P., Ramos, R., Magis-Rodríguez, C., Bucardo, J., Patterson, T. L., & Strathdee, S. A. (2006). Trends in production, trafficking, and consumption of methamphetamine and cocaine in Mexico. *Substance use & misuse*, 41(5), 707–727. <https://doi.org/10.1080/10826080500411478>

¹⁵⁷ Larue, J. Patrick. (2000). The ill-icit effects of nafta: increased drug trafficking into the united states through the southwest border. *Currents: International Trade Law Journal*, 9(1), 38-48. https://heinonline.org/HOL/Page?handle=hein.journals/curritlj9&div=9&g_sent=1&casa_token=&collection=journals

FIGURE B¹⁵⁸

As drug prices trended upward, so did demand to control them and intense violence quickly ensued. Throughout Mexico the rapacity effect, stating that in relation to drugs and illicit income, as profit rises violence will too as victory means usurpation of money and power, can be observed as a direct result of NAFTA and greater drug trade activity. Specifically, authors Oeindrila Dube and Juan Vargas write that in relation to Colombia and cocaine production “a rise in contestable income may increase violence by raising gains from appropriation,” a similar and applicable trend to Mexico and their drug cartel.¹⁵⁹ As revenue and drug production ballooned, cartels and gangs violently fought for control and land as a means of best maximizing their profits with the late 1990s and early 2000s being marred with executions, kidnappings, and

¹⁵⁸ United Nations Office for Drug Control and Crime Prevention. (2000). ODCCP Studies on Drugs and Crime: Global Illicit Drug Trends 2000. https://www.unodc.org/pdf/report_2000-09-21_1.pdf

¹⁵⁹ DUBE, O., & VARGAS, J. F. (2013). Commodity Price Shocks and Civil Conflict: Evidence from Colombia. *The Review of Economic Studies*, 80(4 (285)), 1384–1421. <http://www.jstor.org/stable/43551562>

immense violence.¹⁶⁰ More specifically, NAFTA is associated with a roughly 27% increase in homicides compared to prior to its enactment as well as “an increase in drug-related homicides by approximately 2.3 per 100.000 inhabitants in municipalities with a predicted drug-trafficking route” making clear the cartel brutality motivated by profit.¹⁶¹

NAFTA created a highly intertwined socio-political environment between all three countries, namely the United States and Mexico. The increased trade and economic dependence between Mexico and the US created a greater vested interest in Mexican politics on the part of the United States, especially pertaining to the influx of drug and migrant trafficking. As such, when Felipe Calderón was inaugurated as Mexico’s President in 2006 and announced his plan to take down cartels and their drug trafficking the US offered millions of dollars in support and backing for the operation.¹⁶² The US, which had launched a similar tirade against drugs and narcotics in the 1980s, received support in cocaine trafficking blockades along the border from Mexico during the nation’s crackdown and thus offered up both financial and border resources to help Mexico mitigate the violent and pervasive issue.¹⁶³ While the expectation was that former President Calderón’s War on Drugs would reduce drug trafficking, production, and violence, the opposite effect seemed to take place, and cartel presence grew within Mexico.

Mexico’s War on Drugs was successful to some degree as major cartel kingpins were incarcerated, plantations were raided, and heavily trafficked routes were shut down.¹⁶⁴ However, the government failed to predict, and protect against, a cartel industry shift. The lost revenue

¹⁶⁰ Kellner, T., & Pipitone, F. (2010). Inside Mexico’s Drug War. *World Policy Journal*, 27(1), 29–37. <http://www.jstor.org/stable/27870316>

¹⁶¹ Hidalgo, Eduardo., Hornung, Erik., Selaya, Pablo. (2022). NAFTA and drug-related violence in Mexico, Centre for Economic Policy Research. ISSN 0265-8003, <https://repec.cepr.org/repec/cpr/ceprdp/DP17608.pdf>

¹⁶² Reed, Betsy. (2016). Mexico's war on drugs: what has it achieved and how is the US involved? *The Guardian*, <https://www.theguardian.com/news/2016/dec/08/mexico-war-on-drugs-cost-achievements-us-billions>

¹⁶³ Toro, M. C. (1995). Mexico’s “war” on Drugs : Causes and Consequences. Lynne Rienner Publishers.

¹⁶⁴ Bonner, R. C. (2012). The Cartel Crackdown: Winning the Drug War and Rebuilding Mexico in the Process. *Foreign Affairs*, 91(3), 12–16. <http://www.jstor.org/stable/23217962>

suffered due to government crackdowns and raids were substantial fiscal hits to the cartels and their operational capacities. The war, however, did not stop the cartels or shut them down as Calderón had promised. Rather, they incentivized the cartels to expand their operations and diversify their production by entering less regulated industries— such as agriculture. While some cartels continued to operate in more traditional capacities, many found that the marginal cost of doing so was far too high and thus opted to supplement their revenues through the agriculture industry which, as aforementioned in Chapter 3, was struggling and received little government oversight. The cartels split into sub groups, with many deciding to utilize rural farming communities as extortion rackets and locales to reestablish their drug production further from the public eye.¹⁶⁵ The most prominent sector to enter at the time to do so was avocados. The popularity of avocados within America meant that they were one of the most traded crops between Mexico and the United States, with Mexico providing nearly 80%, and thus were both highly lucrative and constantly going across the border.¹⁶⁶¹⁶⁷ As such, the industry provided an opportunity for cartels, such as the Jalisco Cartel New Generation, the Nueva Familia Michoacana, the Tepalcatepec Cartel, and the Zicuirán Cartel, and shift their assets and production to an area with limited oversight and immense profit potential.¹⁶⁸ These cartels wrought violence throughout the avocado-growing communities and propositioned that peace would only exist if farmers paid security taxes to them. Those who did not pay faced murder and those who produced exceptionally well faced being kidnapped and held ransom for even more

¹⁶⁵ Martin, Philip. (2023). 'Mexico: Agriculture and Labor', *Bracero 2.0: Mexican Workers in North American Agriculture*, *Oxford Academic*, <https://doi.org/10.1093/oso/9780197699973.003.0002>

¹⁶⁶ *Ibid.*

¹⁶⁷ Flannery, Nathaniel P. (2023, April 11). Are U.S. Avocado Buyers Financing The Cartel Conflict In Mexico? *Forbes Magazine*, <https://www.forbes.com/sites/nathanielparishflannery/2023/04/11/are-us-avocado-buyers-financing-the-cartel-conflict-in-mexico/?sh=38b1df281017>

¹⁶⁸ Martin, Philip. (2023). 'Mexico: Agriculture and Labor', *Bracero 2.0: Mexican Workers in North American Agriculture*, *Oxford Academic*, <https://doi.org/10.1093/oso/9780197699973.003.0002>

money.¹⁶⁹ The cartel extortion was so severe that the avocado growing territory of Michoacán established an Office of Kidnapping and Extortion as a means of ensuring the safety of their farmers and a group of farmer vigilantes named the Autodefensas formed to protect their local community.¹⁷⁰ The parasitic nature of the cartel within the avocado industry was dangerous and detrimental to farmer success yet the industry still grew given American demand. The Mexican government estimated that approximately \$150 million was made by the cartels in 2009 alone from the extortion of avocado dealers.¹⁷¹ The removal and dismantling of cartels and their smaller subsidiaries are nearly impossible. The more troops that are sent to police or bust trafficking operations only push cartels further underground, into other economic sectors, and into vulnerable communities rather than serving to control them.

The War on Drugs failed to eradicate cartel presence and diminish drug production by inversely encouraging the organizations to expand into other revenue generation strategies and further entrench themselves into rural Mexico. Because of enhanced cartel presence and violence, the Mexican agricultural economy suffered. Specifically, years when violence was particularly prevalent and following the War on Drugs launched in 2006 led to decreased growth and stagnation of exports despite international demand holding constant. As illustrated in Figure C,¹⁷² the early 2000s showed little growth in exports as imports rose due to rampant drug trafficking diverting labor from agriculture to drug production following NAFTA. Interestingly,

¹⁶⁹ *Ibid.*

¹⁷⁰ *Ibid.*

¹⁷¹ Rudo, Lynne Jessica. (2021). Beyond the Guacamole: A History of How Drug Organizations Became Involved in the Avocado Industry, Masters Thesis, The University of West Florida Graduate School. *The University of West Florida ProQuest Dissertations Publishing*, <https://www.proquest.com/docview/2555672820?pq-origsite=gscholar&fromopenview=true>

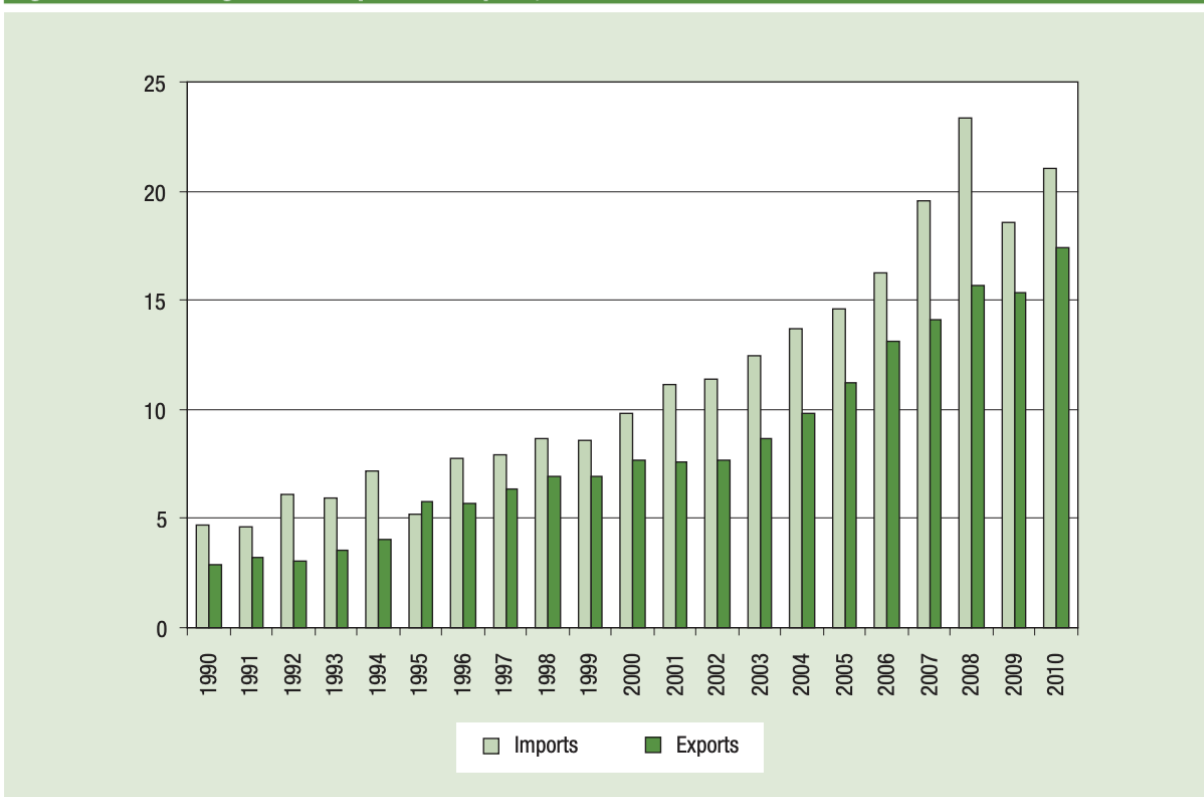
¹⁷² United Nations Conference on Trade and Development. (2013). MEXICO'S AGRICULTURE DEVELOPMENT:

Perspectives and outlook, (Geneva: United Nations, 2013), available from https://unctad.org/system/files/official-document/ditctncd2012d2_en.pdf

following the 2006 War on Drugs there is an increase in agricultural exports which can likely be attributed to agricultural production rising once cartels became more embedded in the growing and exportation processes as outlined with the avocado industry. The fluctuation of performance in Mexico's agriculture sector can be attributed to a wide variety of exogenous factors, however, it is likely that cartel presence and interests have an impact on performance and exports depending upon what best serves their interest at the time.

FIGURE C

Figure 1.1: Mexican agricultural imports and exports, in US\$ bill



Source: UN Comtrade

IV. Conclusion

The complexities and little documentation of the cartel's operations in conjunction with the numerous exogenous economic factors that can be attributed to Mexico's declining economic performance make determining a single event pinpointing the cartel's entrance into agriculture or the reason for declining performance nearly impossible. Thus, the conclusion reached is that NAFTA, the War on Drugs, and governmental failures were detrimental to the Mexican economy and that both events significantly contributed to the infiltration and expansion of cartel influence within Mexico. While NAFTA's implementation created economic vulnerabilities in

the agricultural sector, paving the way for cartel exploitation, the War on Drugs inadvertently fueled cartel diversification and resilience in the face of governmental crackdowns.

However, the main event that caused the economy of Mexico to suffer the most and simultaneously allowed for an expansion of the cartel to the greatest degree was NAFTA. The economic destabilization brought about by NAFTA's trade liberalization created fertile ground for cartels to exploit vulnerable rural communities and offer lucrative alternatives through illicit activities such as drug production. The decline in agricultural employment and the lack of governmental support mechanisms further exacerbated the situation, allowing cartels to entrench themselves within the agricultural sector and extend their influence beyond traditional criminal activities. In contrast, while the War on Drugs aimed to curb cartel activities, its tactics inadvertently fueled cartel expansion and diversification. The heavy-handed approach of military intervention and crackdowns led cartels to adapt and seek out new revenue streams, ultimately driving them deeper into sectors such as agriculture, where governmental oversight was limited. Thus, while both NAFTA and the War on Drugs played significant roles in facilitating cartel influence within Mexico, it is the economic vulnerabilities exacerbated by NAFTA's implementation that arguably provided the most fertile ground for cartel infiltration and expansion.

Conclusion

I. Summary

The infiltration of cartels into Mexico's agricultural sector reflects a greater concern beyond simply criminal expansion, as it is also a manifestation of deeper societal and economic malaise. Exploiting the vulnerabilities of rural communities, cartels have entrenched themselves through corruption and coercion, exacerbating cycles of violence and economic dependence. This thesis has examined various factors enabling cartel proliferation, including government mismanagement, the impact of NAFTA, and the failures of the War on Drugs. The failure of the War on Drugs to curb cartel influence not only intensified violence and criminal activity but also allowed cartels to adapt and expand into sectors beyond drug trafficking, including agriculture, resulting in greater cartel activity and expansion. The implementation of NAFTA, while aimed at promoting economic growth, inadvertently destabilized Mexico's agricultural sector by flooding the market with cheaper imports, leading to the displacement of millions of farmers and creating fertile ground for cartel infiltration and control as a means of income substitution and profit maximization. Government mismanagement, which served as the underlying factor allowing for both NAFTA and the War on Drugs to backfire as they did, was characterized by policies favoring urban consumers over rural producers and the defunding of vital agricultural support programs. These oversights in turn weakened Mexico's agricultural sector, leaving it susceptible to cartel exploitation and exacerbating economic disparities and social instability.

Corruption, deeply embedded within Mexico's political and social fabric, has facilitated a symbiotic relationship between the PRI regime and cartels, perpetuating a cycle of exploitation and underperformance equally as detrimental as macroeconomic shocks. The fall of the PRI did

not rectify these issues; instead, subsequent administrations struggled to fight back against cartel influence. As a result, this led to the entrance of cartels in alternative sectors— namely agriculture. The enactment of NAFTA, while aiming to spur economic growth, ultimately destabilized Mexico's agricultural industry, leaving millions of farmers disenfranchised and vulnerable to cartel exploitation. Addressing the root causes of cartel influence demands comprehensive reform, encompassing economic restructuring, social development initiatives, and a concerted effort to combat corruption at all levels of governance.

II. Future Points of Interest

This thesis relates to an ever-growing and changing topic and one that is not well documented at that. Thus, the cartel, their operations, and their impacts are a space with room for greater exploration and research to be developed. There are broader implications for Mexico, Latin America, and the global community concerning the cartel's influence and the strategies employed by social movements in response to it.

Mexico's position as one of Latin America's largest economies makes it a country of great influence, and with its Northern border along the United States, Mexican politics often permeates into both the United States and Canada. The interconnectedness of the North American economies means that decisions made in Mexico regarding trade, immigration, and security have ripple effects across the continent. For the United States, Mexico serves as a crucial trading partner, with intricate supply chains spanning industries such as automotive, agriculture, and manufacturing. Similarly, Canada shares economic ties with Mexico, particularly within the framework of NAFTA, now USMCA, which underscores the importance of Mexican political decisions on Canadian trade and investment interests. Therefore,

developments in Mexico's economy and political landscape are closely monitored and can significantly influence policy discussions and diplomatic relations throughout North America. There is much to be explored in regard to how cartel decisions and operations have influenced these spaces and how this has affected relationships with the United States at large.

The scale of the drug trafficking operations that both take place in Mexico, and are run through Mexico by other South American countries such as Colombia and Chile, are the largest in the world and have global social, political, and economic effects. The interconnectedness of these operations with the United States, as a major consumer market and a neighboring country, significantly shapes its domestic and foreign policy. The influx of drugs across the United States-Mexico border not only fuels addiction and crime within both countries but also has prompted the United States to adopt stringent drug enforcement measures domestically and engage in collaborative efforts with Mexico to combat trafficking. Additionally, the political and economic implications of drug trafficking, including corruption, violence, and destabilization in Mexico, often influence US foreign policy decisions, particularly regarding aid, security cooperation, and immigration. Further research into the impact of drug trafficking on US-Mexico relations could delve into the effectiveness of bilateral cooperation mechanisms such as the Mérida Initiative and examine the role of drug policies in shaping diplomatic relations between the two countries. Additionally, exploring the socioeconomic factors driving drug demand in the United States and the structural vulnerabilities in Mexico that facilitate trafficking operations could inform targeted interventions to address the root causes of the issue. Understanding the transnational nature of drug trafficking networks and their impact on regional stability and security could also lead to the development of comprehensive strategies for countering organized crime and promoting peace and prosperity in the Americas.

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