‘Drug trafficking in Mexico: Necessity knows no law’

‘The untrustworthy relationship between drug business and business of policing drugs in Mexico between 1990 and 2012 explained by rent-seeking’

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# Table of contents

Introduction ................................................................................................................................... 4

1 The Mexican narco-history .......................................................................................................... 12

1.1 Economic development in Mexico ................................................................................................. 15
1.2 The beginning of the illicit narco-trafficking in Mexico ................................................................. 19
1.3 1960-1980: U.S anti-drug policies and a rising trade in marijuana and heroin ......................... 22
1.4 Cocaine shift from Colombia ........................................................................................................ 24
1.5 Drug links between the state and drug trafficking organizations ................................................. 25
    1.5.1 The end of the PRI .................................................................................................................. 26
1.6 Conclusion ..................................................................................................................................... 28

2 Theoretical framework: Rent-seeking ............................................................................................. 30

2.1 Introduction: Public Choice theories ............................................................................................ 30
2.2 Rent-seeking, a general concept .................................................................................................. 32
    2.2.1 The difference between rent-seeking and profit-seeking ..................................................... 33
2.3 Underlying logic in legal markets and identifying rent-seeking .................................................. 35
2.4 Rent-seeking in illegal markets ................................................................................................... 38
    2.4.1 Rent-seeking outside the productive area of the illegal market in the form of corruption 40
2.5 The state, Institutions and the informal institutional order and corruption ................................. 42
2.6 Operationalization ....................................................................................................................... 44
2.7 Conclusion ..................................................................................................................................... 46

3 Mexico: 1990-2012 Rent-seeking within and outside the working force of the drug markets .... 48

3.1 Introduction ..................................................................................................................................... 48
3.2 Inheritance and circumstances in Mexico ..................................................................................... 50
    3.2.1 The PRI inheritance ................................................................................................................. 50
    3.2.2 Competition law ...................................................................................................................... 52
    3.2.3 Privatizations .......................................................................................................................... 55
    3.2.4 General rent-seeking in Mexico today ..................................................................................... 58
3.3 Rent-seeking within the illegal drug markets 1990-2012. Disequilibria of the illicit markets 1990-2012 ................................................................. 60
    3.3.1 Market structures .................................................................................................................... 61
    3.3.2 Role government: 1990-2012. Policing drugs and consequences ............................................. 64
    3.3.3 Conclusion: rent-seeking within the market 1990-2012 ......................................................... 77
3.4 Negative externalities of the illicit drug markets, effects of rent-seeking .................................... 78
    3.4.1 Public choice: public interest and individual interest in drug trafficking ............................. 78

International Relations and International Organization
University of Groningen
E.E. Arnold - ‘Drug trafficking in Mexico: Necessity knows no law’

3.4.2 1990-2012 Violence as a negative externality ................................................................. 80
3.5 Rent-seeking outside the market force of the drug market ...................................................... 83
  3.5.1 Corruption in Mexico related to drugs .............................................................................. 84
  3.5.2 1990-2000 Carlos Salinas de Gortari and Ernesto Zedillo ................................................. 86
  3.5.3 2000- 2012, PAN: Vincente Fox and Felipe Calderón ....................................................... 87
  3.5.4 Persisting corruption perceptions ...................................................................................... 88
  3.5.6 Consequences of rent-seeking and corruption as a negative externality ......................... 91
  3.5.7 The untrustworthy relationship between drug trafficking and policing drug trafficking .... 91
3.6 Conclusion ............................................................................................................................... 93
Conclusion ....................................................................................................................................... 95
Bibliography .................................................................................................................................... 100
Introduction

Many problems in the academic field of International Political Economy are more than just international problems; instead they are global, which affect all. These are not just a conflict or a tension between and among states. These problems transcend every boundary of all states and have become global in their effects. The illicit international economy is just one example of such a global conflict. Therefore illicit international trade can and should be seen as the dark side of today’s globalized world and especially in our world market. Namely globalization has opened the path to profit for criminals from their cross-border business. In our interdependent world, borders have opened up, trade barriers have removed and information flies quickly. Economics, trade and business is booming - and so is transnational organized crime. Fortunes are being made from drug trafficking, prostitution, illegal firearms and a host of other cross-border crimes.¹ Every year, organized criminals launder huge amounts of money in illegal proceedings. "Never before has there been so much economic opportunity for so many people. And never before has there been so much opportunity for criminal organizations to exploit the system", said Pino Arlacchi, Executive Director of the United Nations Office for Drug Control and Crime Prevention (ODCCP).² Same as in legitimate business, larger criminal groups may explore themselves into a wide range of "commodities", using the same networks, routes and even corrupt officials to move people or goods. Moreover, just as legitimate companies move in to fill gaps in the product market, new organized crime groups suddenly emerge where profits are to be made.³

In Mexico, organized crime has appeared as large-scale drug trafficking cartels. Annually, the Mexican drug industry generates profits between 11 and 39 billion US$ through which about half a million of Mexican people earn a great income from drug trafficking.⁴ Nowadays, these drug profits exceed Mexico’s revenues from its largest legal commodity export product, oil, which generates revenues of 7.4 billion US$ annually.⁵

Drugs related problems are not new in Mexico. In fact Mexico has a long history relating to drugs difficulties. In order to understand Mexico’s battle against drug trafficking one cannot ignore the relation between The United States and Mexico or differently stated the

³ Idem.
⁴ David A. Shirk, ‘The drug war in Mexico: confronting a shared threat’, council on foreign relations march 2011. 7.
demand and supply rhetoric of illicit narcotics. Namely, the demand function of illicit narcotics stemming from the U.S. could be seen as the underlying problem of the ongoing drug trade: If there is a demand for a commodity, supply will follow. This occurrence can be noticed within the Mexican-U.S. drug markets. Mexico’s and the United States anti-drug policies mainly focus on cutting of the supply of drugs, while the demand side seems to be untouched. This also has led to tensions between the U.S and Mexico. While the U.S. is pointing fingers towards the efforts of the Mexican state and the ongoing drug trade, the Mexican government has declared that drug trafficking is not only a ‘Mexican’ problem and that the U.S. should limit U.S. demand for illicit narcotics in order to succeed. Therefore the subscribed expression of grief of General Porfirio Díaz, former Mexican president (1877–1911): "¡Pobre México! Tan lejos de Dios, y tan cerca de los Estados Unidos." -"Poor Mexico! So far from God, and so close to the United States." - nowadays still make sense.

Drug trafficking from Mexico to the United States has brought immense profits but also destruction. Since current president of Mexico Felipe Calderón, actively declared ‘The war on drugs’ the death toll in the five years of war against drug trafficking in Mexico exceeded over 60,000 deaths. To illustrate the magnitude, cities as Tijuana and Juárez in northern Mexico are seen as the most dangerous cities worldwide with the highest killing number. Moreover, as the Mexican execution-barometer counted 10,514 drug related killings in 2010, it was estimated that those assassinations would end up in 12,000 killings at the end of the year. This killing rating is extreme high in comparison with the overall number of U.S. military victims in Iraq and Afghanistan combined; that number ranked in December 2010 about 5,700 for the entire period of both wars.

Moreover corruption appears to be limitless within the country; narco-corruption seems to backlash anti-drug efforts made by the government during the years around 1985 until 2012 as drug cartels within Mexico have corrupted officials of all state levels as long as Mexico was involved with the narco-business. Nowadays Mexico is intertwined in a very severe security battle within its own territory. Despite Mexico’s war on drugs and the U.S.

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9 David A. Shirk, ‘The drug war in Mexico: confronting a shared threat’, council on foreign relations march 2011. 3.
anti-drug plan – the Mérida Initiative from 2008, which is a security agreement between countries of Central America with the U.S. that aims to backlash drug trafficking, money laundering and transnational organized crime in general by providing training, intelligence and equipment.\textsuperscript{10} Mexico’s drug trafficking industry has grown significantly. To give an impression, the poppy industry grew from 71 tons in 2005 to 425 tons in 2009 and the marijuana production rose from 5,600 hectares in 2005 to 17,500 hectares in 2009.\textsuperscript{11}

At the background of these developments lies Mexico’s problematic economic and political situation and highly corruptive institutions. Namely, Mexico evolved from the ‘Mexican Miracle’ towards cycles of economic crises while Mexico was ruled under the same political party: the Institutional Revolutionary Party (PRI) which ruled Mexico until 2000. These developments still leave traces within Mexico’s current political, economic and social system seen in corruption, monopoly practices and drug trafficking. In addition, as long as Mexico is involved in the narco-industry, three components can be revealed. Namely, demand-stemming from the U.S.-, violence – as a political stratagem –, and an abusive relation between drug criminals and the Mexican state.\textsuperscript{12} Nowadays, the prohibition on drugs on both sides of the U.S.-Mexican border, anti-drug efforts, immense profits, and corruption combined with ineffective law enforcement within Mexico continue to backlash the battle against drug trafficking and the related side effects: corruption and violence. Therefore politicians, policy makers, and academics need to ask themselves the question: ‘Does the chosen political path suits the desirable outcome to stop drug trafficking in Mexico?’

Consequently, this comprehensive drug trafficking problem in Mexico seen in the untrustworthy relationship between law enforcement, anti-drugs policies, and drug business with the accompanied profits, corruption and violence in Mexico needs to be addressed within the academic discipline International Political Economy (IPE) and its illegal counterpart: the Illicit International Political Economy (IIPE). This because, IPE offers an across the board analytical perspective derived from the academic disciplines Economics, Political Science, and Sociology by focusing on the interplay between the state, markets and society. Moreover IIPE could be seen, as defined by Peter Andreas as the “relationship between states and illegal international markets”.\textsuperscript{13} The comprehensive character of the Mexican case can only

\textsuperscript{10} Francisco E. Gonzáles, ‘Mexico’s Drug Wars Get Brutal’, \textit{Current History} (February 2009) 72-76. There 76.

\textsuperscript{11} Julien Mercille, ‘Violent narco-cartels or U.S. Hegemony? The political economy of the ‘war on drugs’ in Mexico’, \textit{Third World Quaterly} 32:9 (2011) 1637-1653, there 1638.


adequately addressed by focusing on the interplay between the market, the illicit market, the state, and the society. Thus, by drawing upon an IPE and IIPE perspective we will gather understanding to what extent states, rational actors, institutions and economic interactions affect both political and economic structures in the Mexican drug trafficking case. Therefore altogether, we could argue that Mexico’s severe drug trafficking situation touches upon the core of IPE and IIPE and needs to be investigated as such. Therefore, the Mexican case study is an ideal and very appealing one to use in this thesis by drawing upon an IPE and IIPE perspective.

As IPE has traditionally focused on questions associated to the retreat of the adjusting state and the economic changes towards a more liberalized world through free trade agreements, deregulation, and privatization, while IIPE draws attention to the reaffirmation of the state by tightening controls on illegal trade, money laundering etc.\(^{14}\) Thus, one can conclude that the politics and practice of market-liberalization are contradictory with politics and practice of market-criminalization. This contradiction disturbs both policies and practices in both market-liberalization as in market criminalization in an unintentional and undesirable manner. To illustrate, trade liberalization for legal trade can increase the illicit trade. Likewise, prohibitions and regulations on illicit trade can interrupt legitimate trade and travel across borders.\(^{15}\) Altogether, the illicit global economy could gather new insights about the interactions between, markets, states, and societies.\(^{16}\)

Moreover, the illicit economy poses challenges to the three main IPE paradigms; Realism, Liberalism, and Marxism. Namely, the realist assumption holds that the state is the unitary actor and realism focuses mainly on security and power in the international system, while the illegal international economy is dominated by non-state actors that might frustrate proper working institutions and intentions of powerful and weak countries. Likewise the liberal paradigm is focusing on the invisible hand of the market, while the illicit international economy is loaded with corrupt and controlling hands. The preach for free trade and free markets without state-intervention deriving from the liberal approach is ought to lead to prosperity and peace. To the contrary, in the illicit markets the unregulated trade can cause atrocious conflicts, inescapable oppression, and social decline. In respect to the Marxist paradigm -which tends to illustrate capitalist and developed countries as exploiters of the

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\(^{14}\) Idem 646.

\(^{15}\) Idem 646.

developing countries and societal groups- in the illicit international economy, developing countries and societal groups may take revenge on the developed countries.

To overcome these challenges and to take the dissimilarities between market liberalization and market criminalization into account, Peter Andreas- specialist in the academic field of IYPE- argues that the broad church of IPE should expand and combine its scope where actors, frameworks, and ways of thinking that cannot straightforwardly be classified under the three main paradigms should be included. Moreover, Andreas argues that IYPE can help to overcome the sharp divide between security studies in IR and IPE.

By doing so, the Economic Theory of Politics or Public Choice may be used to integrate the academic disciplines of politics and economics. This approach tends to analyze political processes, and the interplays between the state and the economy, by lending moderns tools of neoclassical analysis. This public choice approach provides a study of the way of working of institutions and the behavior of governments, societies, political parties, voters, bureaucracies and interest groups.

One of the most important insights that Public Choice analysis has offered IPE involves the concept of rent-seeking behavior. The term rent-seeking was coined by economist Anne O. Kruger, and signifies the resource-wasting activities of individuals in seeking transfers of wealth through the tutelage of the state. Rent-seeking as a broad concept describes the use of resources to capture a transfer instead of producing a good of a service. In general rent-seekers are persons who abduct wealth and do not produce wealth. In addition, rent-seeking needs to be understood in a wider perspective. Likewise, Anne O’ Kruger states: “In other instances, rent seeking takes other forms, such as bribery, corruption, smuggling, and black markets.” Therefore, in this thesis the rent-seeking concept of public choice theories which draws upon liberalism will be used to analyze drug trafficking in Mexico towards the United States.

This school of thought is chosen for a couple of reasons. Firstly, drugs such as

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18 Idem 641.
20 Idem 5.
cocaine, heroin, and marijuana are commodities which have a huge demand and supply rhetoric in international markets and are a very profitable business to involve with. Secondly, the international community, individual states, and international organizations, and drug traffic organizations are involved actively -by setting rules in the forms of prohibitions and by trafficking an sich- and passively by naming, framing and campaigning about the prohibition and effects of drug use. This could be seen as a battle of interest whereby lobbying for certain rules exists or certain economic monopoly positions could be obtained by traffickers and state officials. Hence the question thereby rises: ‘Why are some groups able to obtain their desired goals and others are not?’ Public Choice theories thereby are ideal to analyze these kinds of issues because the abovementioned issues touch upon the core of Public Choice theories.

Rent-seeking will thus be used to address Mexico’s problematic ongoing battle against drug trafficking towards the United States. The ultimate goal of this thesis is to give an explanation on economic and corruptive grounds why drug trafficking, despite anti-efforts still is booming. The main question to be addressed in this thesis is: ‘To what extent can the untrustworthy relationship between drug business and business of policing drugs in Mexico between 1990 and 2012 be explained by rent-seeking?’

This problem definition will be addressed by finding answers within three chapters. This thesis is structured as follows:

- Chapter 1: ‘How did Mexico get involved into the illicit drug business?’
- Chapter 2: ‘What is rent-seeking and how can we use it as an analytical tool to address Mexico’s ongoing battle against drug trafficking?’
- Chapter 3: ‘To what extent can we identify general rent-seeking opportunities and corruption in Mexico and in particular those related to drug trafficking in Mexico in 1990 until 2012?’

In chapter 1, I will address the intensification of Mexico’s importance in cocaine, heroin and marijuana trade and the supply and demand rhetoric between the U.S. and Mexico. Moreover, attention will be paid to economic, political and corruptive factors that have supported the enlarged connections among criminal networks and increased incentives for trafficking, violence and corruption. While elaborating on this, the Mexican state apparatus will be touched upon to show the corruptive role the state has played for years. By showing Mexico’s narco-history and the factors which have led to the drug explosion in Mexico, I will show that the Mexican drug history goes hand in hand with the development of corrupt processes and Mexico’s problematic economic crises. Thus, by answering this question, this chapter
provides understanding about the interplay between the Mexican state, the United States, the illicit drug markets and political and economic developments within the Mexican society. Moreover, this chapter needs to be answered in order to understand to what extent political and economic structures within the Mexican state and the drug markets are interwoven which will reveal the untrustworthy relationship between policing drugs and drug trafficking.

In chapter 2, the analytical tool – rent-seeking - will be deeply elaborated upon by answering the questions: ‘What is rent-seeking?’ ‘How can we identify rent-seeking?’ Can we measure rent-seeking?’ and ‘Where does rent-seeking come into play?’ In so doing, attention will be drawn to the differences between rent-seeking within and outside the market. Furthermore, the differences between rent-seeking behavior within illegal and legal markets will be discussed. To complete, the nature of the government will be examined in combination with the informal and formal institutional order, which will appear as a key factor for rent-seeking opportunities seen in bureaucratic corruption. The relevance of this chapter is to understand the comprehensive concept of rent-seeking in order to apply it on the Mexican case study. The insights provided in this chapter will make rent-seeking to be seen as a very useful and valuable analytical within the academic field of IPE and IIPE and specifically for this thesis.

Chapter 3 will start with an overview of the Mexican state structure and accompanied levels of corruption which were created during the 71-years of ruling by the PRI, which ended in the year 2000. Hence, in this chapter rent-seeking in general and related to drug trafficking behavior will be addressed in Mexico during 1990 until 2012 by focusing on the interplay of market characteristics, market participants, drug policies, drug profits, anti-efforts, and corruption, which altogether will reveal the untrustworthy relationship between drug business and business of policing drugs in Mexico between 1990 and 2012. The importance of this analytical chapter is to analyze to what extent rent-seeking within and outside the markets can be identified and what the welfare implications are. The findings in this chapter in combination with chapter one and two, provides us understanding to what extent the untrustworthy relationship between drug business and business of policing drugs in Mexico between 1990 and 2012 can be explained by rent-seeking.

The academic value of this thesis is to examine to what extent rent-seeking and the core business of IPE- seen in the interplay between the (illicit) market, the state and the society- can help us understand Mexico’s battle against drug trafficking and to what extent it can give us deeper insights into the question why the chosen political path seen in prohibition.
and anti-enforcement is not working in the Mexican case study. Therefore, this thesis will provide us knowledge to what extent the Mexican state, rational actors – seen in bureaucrats, drug traffickers, high officials and civilians-, institutions- seen in law enforcement, the judiciary, the police and the military- and economic interactions – seen in prohibitions, rents, rising market participation, demand and supply- affect political and economic, and societal structures within Mexico.

In addition, this thesis in the field of IPE and IIPE could provide a wider dimension to the debate whether Mexico is becoming a ‘failed state’ or not. Namely, by focusing on the intertwined relation between the state and the (illegal) market, this thesis will reveal to what extent the Mexican state has control over its markets and to what extent state failure underneath market failure could be identified. Specifically, in this thesis, attention will lie on how market failure caused by state led policies- seen in prohibition and enforcement- could give rise to dis-appropriate rents outside the working force of the market accompanied with violence and corruption which should be seen as state failure. Thus, this thesis provides us understanding how illegal economic trans-border activities challenges state authority and state control. Moreover, in the literature not a lot has been written on rent-seeking behavior within the illegal drug markets. By using the theoretical framework on rent-seeking in the Mexican case helps us to be aware of sharp dissimilarities between market liberalization and market criminalization and could add deeper insights to the market working and policies concerning illegal commodities. Altogether, this in-depth investigation to the ‘dark side’ of IPE – the illegal drug trade- could provide new insights for the understanding and importance of IIPE as an extra dimension besides the mainstream IPE paradigms.
1 The Mexican narco-history

On December 11, 2006 the Mexican President Felipe Calderon declared the war on drugs against the Mexican drug cartels. The drug war or the fight against organized crime in Mexico is an internal armed conflict faced by the Mexican government against the gangs that control various illegal activities which consists mainly of drug trafficking. Calderon launched an offensive against organized crime and drug trafficking by deploying 45,000 soldiers. Based on the information from the instances of public safety and law enforcement in the Mexican states, the death toll in the five years of war against drug trafficking in Mexico exceeded over 60,000 deaths. Despite these anti-drug efforts, flows of drugs to the United States have still remained unhindered.

Annually, the Mexican drug industry generates profits between $11 and $39 billion whereby about 450,000 Mexican people earn a great income from drug trafficking. Nowadays, these drug profits exceed Mexico’s revenues from its largest legal commodity export product, oil, which generates revenues of $7.4 billion annually. Current estimates state that 95 percent of cocaine consumed by the US stems from Latin American countries and enters the country through transit routes in Mexico. In 2008 these estimates stated that close to 90 percent of the cocaine entering the US crossed the U.S.-Mexican frontier. Next to being a main transit route for cocaine, Mexico is also a major producer of heroin, methamphetamine and marijuana. Despite Mexico’s war on drugs and the U.S. anti-drug plan – the Mérida Initiative of 2008, which is a security agreement between countries of central America and the U.S. what aims to backlash the threats of drug trafficking, money laundering and transnational organized crime in general by providing for training, intelligence and equipment.

Mexico’s drug industry seen in production and trafficking towards the U.S. has grown significantly. To give an impression, the poppy industry grew from 71 tons in 2005 to 425 tons in 2006. The number of drug-related deaths from 2006 to 2010 increased from 3,267 to 7,272. The number of drug-related arrests increased from 14,741 to 23,915 during the same period.

Claudia Herrera Beltran, ‘El gobierno se declara en guerra contra el hampa; iniciaciones en Michoacán’, La Jornada 12/12/06. Retrieved 16/03/12.
Francisco E. Gonzáles, ‘Mexico’s Drug Wars Get Brutal’, Current History (February 2009) 72-76. There 76.
tons in 2009 and the marijuana production rose from 5,600 hectares in 2005 to 17,500 hectares in 2009.\footnote{Julien Mercille, ‘Violent narco-cartels or U.S. Hegemony? The political economy of the ‘war on drugs’ in Mexico’, \textit{Third World Quaterly} 32:9 (2011) 1637-1653. There 1638.}

This raises certain questions; “\textit{When did the drug problems in Mexico get out of hand? What is the magnitude of the problem? When and how did it start? Who is involved? Why did the situation escalate? And, can Mexico win this war?}” In this chapter I will answer the question ‘how did Mexico get involved into the illicit drug business?’ In order to understand this delicate business one needs to look back into history which will help us understand how Mexico got so profoundly involved in drug trafficking. Drug related problems are not new in Mexico; in fact Mexico has a long history relating to drugs difficulties.

Many scholars, journalists, and also the U.S. Pentagon reports\footnote{Only by typing ‘Mexico a failed state’ in google results in 31.300.000 hits.}, nowadays speculate that the Mexican state will become a failed state due to drug trafficking lingering violence and immigration. In so doing, related to drug trafficking they passively imply that the Mexican drugs organizations and the Mexican state are separate and that the drug cartels are becoming law enforcers in some area. On the contrary as Mexican specialist state Luis Astorga states “According to common sense perception, drug traffickers in Mexico have become so powerful that they have "penetrated" the protective shield of official institutions whose purpose is to fight them. Historical research in the Mexican case does not support the assumption of two separate fields: drug trafficking and its agents, on one side, and the State on the other.”\footnote{Luis Astorga, ‘Drug Trafficking in Mexico: A first General Assessment’, UNESCO Discussion paper no. 36. (Without page numbers). Retrieved 23/02/12. \url{http://www.unesco.org/most/astorga.htm}.} Following the line of Astorga’s assumption, in this thesis I will show, based on historical elements and recent developments, that the Mexican state and drug cartels are not complete separate entities. To be sure, corruption and unlawful deals between law enforcers and drug traffickers -as we will see during this thesis- makes the Mexican state and drug cartels related to each other. Therefore, this thesis provides us understanding how illegal economic trans-border activities can challenge state authority and state control because of the intertwined relation between the Mexican state and drug trafficking organizations.

In order to understand Mexico’s war on drugs one cannot neglect the relation between the United States and Mexico (or differently stated the demand and supply rhetoric of illicit narcotics). While the U.S. and Mexico are actively combating the supply of illicit drug flows, the demand of narcotics stemming from the U.S. remains the same, leading to an incentive to
get involved in the lucrative drug business. Therefore, Mexico’s geographic position as a neighbor to the United States and their constant demand for narcotics is the underlying core problem (or main generator) of Mexico’s drug business. Namely, Mexico should be seen as a transit and supply country for drugs for the United States. Therefore, the demand for illicit narcotics stemming from the U.S. reveals the core underlying problem. To illustrate, the U.S. ongoing war against drugs in the world, which up to today has not worked ought as it ought to have had, but only resulted in drugs being grown in and trafficked from somewhere else. The U.S. have been involved in the war against international drug trade since the 1900s, announcing one ‘war’ after another – as for them “illicit trafficking in drugs of abuse and addiction should be seen as a global problem with negative social, economic, and political consequences”.

These shifts of drugs being grown and trafficked somewhere else, has also altered Mexico into a prominent drug trafficking and production country as we are about to see.

The intensification of Mexico’s role in the drug trade is the outcome of numerous factors that have supported the enlarged connections among criminal networks and increased incentives for trafficking, violence and corruption. In this chapter I will show these factors by starting how Mexico’s problematic economy was a crucial factor for the involvement of many Mexicans in the illicit narco-business. Subsequently I will draw upon the commence of illegal drug trafficking caused by prohibition on the south side of the U.S.-Mexican border in combination with corruption appearances. Next, I will show the developments (seen in drug shifst) in the sixties, seventies, eighties and nineties in order to understand how Mexico got so deeply involved into the drugs business. While elaborating on this, attention to the Mexican state apparatus will be drawn in order to show the corruptive role the state has played for years. By showing Mexico’s narco-history and the factors which have led to the drugs explosion in Mexico, I will illustrate that the Mexican drug history goes hand in hand with the development of corrupt processes. Therefore I will end this chapter with a small paragraph on corruption which should give us a preview of Mexico’s untrustworthy relationship between drug trafficking and policing drug trafficking. Altogether, this chapter, based on historical elements makes it plausible that the Mexican state and drug trafficking organizations are linked to each other.

36 H. Richard Friman, NarcoDiplomacy: exporting the U.S. war on drugs (Itaca 1996) ix.
1.1 Economic development in Mexico
This section of this chapter will show the economic developments of Mexico. Which have contributed to a growing drug trade in Mexico. From 1940 to 1970 the Mexican economy was commonly called the ‘Mexican Miracle’; a period of economic growth that followed the end of the Mexican Revolution. Since 1940 the economic model of import substitution industrialization (ISI) had been the growing strategy which stimulated and secured the development of national industries. In the fifties and sixties the Mexican economy saw an average annual growth above 7 percent with low levels of inflation. After 1970, the negative elements, present during the economic expansion years, and became apparent which eventually led to the financial crisis of 1976. When Luís Echevería came into office (1970-1976) he kicked off fundamental economic changes; he transformed the reserved fiscal policies into growing governmental expenditures. Under the five years of Echevería, public-sector employment doubled, whereas total public spending rose from 20.5 percent to 30 percent of the GDP. As a consequence Mexico’s foreign debt rose from $0.3 billion in 1971 to $28 billion by 1976. In August 1976, the increasing currency speculation, large-scale capital flight, and lack of confidence in Mexico’s ability to pay its debt, made Mexico unable to maintain the fixed exchange rate of 12.5 pesos to the dollar and obligated the government to devalue the peso for the first time since 1954. The succeeding president José López Portillo (1976-1982) failed to get the economy on track by continuing these expansionary fiscal policies which resulted in an even larger foreign debt. At that time large oil reserves were found and seen as the solution to fix Mexico’s economy. Under the Portillo administration the oil production was gradually increased to avoid another inflationary effect. Nonetheless, by 1981 Mexico ranked the fourth largest producer of oil worldwide, whereby the oil production tripled between 1976 and 1982. The increase of oil exports banned other exports, turning Mexico into a ‘single-commodity exporter’. The fifty billion barrels of oil reserves and the
associated profits enabled Mexico to become an even larger international borrower. In 1982 overproduction on the international oil market made it necessary for the Mexican government to borrow an additional $1.2 billion to adjust the lost oil revenues. This undesired situation loaded with foreign debt, stagnating exports and the devaluated currency of February 1982, resulted in the financial collapse of 1982.\footnote{Idem.}

Liberal reforms in Mexico were implemented rather late compared to other countries, because of a couple of reasons. First, the liberal policies did not fit Mexico’s political system in a way that in the 1980s more than 33 percent of the economy was in the hands of privileged elites in government monopolies.\footnote{Paul Craig Roberts and Karen Lafollete Araujo, \textit{The Capitalist Revolution in Latin America} (New York 1997).} Second, due to the financial collapse in 1982, Mexico had to implement strong protectionist policies which were at odds with liberal policies and reversed earlier liberal reforms attempts. Moreover, as already discussed, because of the promising rents from the new oil reserves Mexico followed an expansionary monetary and fiscal policy until 1982, which also is at odds with liberal policies.\footnote{Sergio Abreu and Lima Florencio, ‘Latin American Development Models – Parallel Between Brazil and Mexico’, \textit{Simon Fraser University, Latin American studies program} Vancouver, September 2nd, 2011. 1-16. There 2.} These policies have increased Mexico’s debt position, because Mexico needed to adjust her economy by lending additional money. Notwithstanding, after the collapse in 1982, the then current president, Miguel de la Madrid Hurtado (1982-1988), installed an economic program based on austerity and kicked-of liberal reforms. De la Madrid struggled to stabilize the fiscal and macroeconomic balance while at the same time the Mexican debt obligation imposed by the International Monetary Fund (IMF) - needed to be fulfilled.\footnote{Wayne A. Cornelius, ‘The Political Economy of Mexico under De la Madrid: Austerity, Routinized Crisis, and Nascent Recovery’, \textit{Mexican Studies} Vol. 1, No. 1 (1985) 83-124.} It became clear that Mexico needed more than an economic reform program. Therefore the La Madrid administration adopted liberal policies, discussed Mexico’s entry into The General Agreement on Tariffs and Trade (GATT) - which happened in 1986 - and allowed imports with high tariffs to enter the country in order to raise Mexico’s public income.\footnote{Edna Jaime, ‘Fox’s economic agenda: An incomplete transition’ in L.Rubio ed., \textit{Mexico under Fox} (Colorado 2004) 35-64. There 38.}

When Carlos Salinas came into office (1988-1994) Mexico’s reform invigorated by the improved public finances, reduced public expenditures, a raise in tax, a new inflation control, more liberalized trade, privatizations, and deregulations of the main economic sectors. Under the Salinas administration negotiations started for a free trade agreement with
North America (NAFTA). In 1992 NAFTA was approved by the governments of Mexico, the United States, and Canada, and came into effect on January 1, 1994. At the background of the aforementioned developments, there was an increasing trade deficit due to the appreciating peso between 1989 and 1993, which had deteriorated Mexico’s exports capacity and led to an enormous increase in imports. Therefore the unanswered question to devaluate the peso was raised since March 1994.

In December 1994 Mexico was hit again by a severe crisis. Mexico faced new a balance of payment crisis whereby the confidence in the peso disappeared. Pressure on the peso in the international exchange market had led to an exhaustion of Mexico’s foreign reserves. As a consequence the Mexican government had to float the peso which immediately led to the peso crisis. The devaluation caused by the flotation of the peso led to a massive capital flight - $6 billion - from the peso in one day whereby the peso dropped instantaneously by 40 percent. Mexico’s economy recovered rapidly due to help from the U.S. and IMF loans in February 1995, which was accompanied by returning confidence from the international financial community in Mexico’s economy.

This economic battlefield should be seen as a factor that contributed to the Mexican involvement in drug trafficking in two ways. First, the amount of illicit drugs was further expanded by neo-liberal reforms in a way that the amount of trade and commerce increased across the Mexican-U.S. border which made the smuggling of large amounts of narcotics easier by just putting shipments of narcotics into border crossing vehicles. Second, the economic struggles enlarged the drug industry in Mexico as more Mexicans got involved in the drug industry due to the poor labor market and to get out of the severe economic situation; the neoliberal economic policies of de la Madrid, Salinas and Zedillo pushed thousands of people into informality. However, the acute balance of payments crises of 1982 and 1994 made the informal economy emerge with greater force. Likewise, The NAFTA agreement did not lead to job generation for many, while wages dropped instead of increased. Even though the Mexican manufacturing sector saw a creation of 500,000 to 600,000 jobs, these jobs had been counterbalanced by a loss of approximately 2.3 million jobs in the agricultural

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49 Idem 39.
52 Hamnett, A Concise History, 281.
sector caused by cheaper subsidized American corn. As a consequence farmers were forced to work in *maquiladoras*. These U.S. manufacturing factories did not generate a lot of linkages – beside of the aforementioned job creation - with the Mexican economy, as mainly imported components were assembled and their end products were directly re-exported. Consequently, the informal Mexican economy increased. The reoccurring economic crises, and the economic slowdown in the first years of the administration under Vicente Fox (2000-2006) - which was characterized by falling real wages and high rates of unemployment - allowed the informal economy to rise again as a ‘natural’ response to these conditions. To illustrate the scope in 2004, 57 percent of the working force was integrated in the informal economy. Thus, twenty years after the implementation of the neoliberal model, the Mexican economy has been plunged into a lingering crisis, characterized by reduced Gross Domestic Product (GDP) annual growth (only 2% rates between 1982 and 2003) and inability to generate jobs.

In addition, according to Eduardo Valle - personal adviser to the Mexican attorney general in May 1994 - Mexico’s leading drug traffickers had become "driving forces, pillars even, of our economic growth." Likewise, the United States Drug Enforcement Administration (DEA) estimated that Mexico earned more than $7 billion per year from the drug trade in 1994. However, Mexico estimated that these earnings were much higher. Mexico calculated that drugs traffickers active in Mexico accumulated revenues of about $30 billion in 1994. Therefore this drug business is a noteworthy employer for many Mexicans. It was estimated that between 200,000 and 300,000 people were earning a living by growing drug crops. These numbers do not include the other logistical jobs indirectly and directly generated by the drug trafficking business, such as transport, banking, and security. Moreover, corruption underpinned the growing trade with the ‘plaza’ agreements between state official’s en drug traffickers.

To conclude, during Mexico’s economic battlefield, Mexico’s drug trade increased. In chapter three the consequences of the liberal reforms for Mexico relating to drug trade and rent-seeking behavior in general will be profoundly discussed. In order to comprehend the increasing role of Mexico within narco-trafficking, while being aware of Mexico’s economic situation, I will start with the birth of illegal drug trafficking in Mexico. Next I will show Mexico’s growing drug trade during the 1960s, 1970s, 1980s, and 1990s.

55 idem Mercille, ‘Violent narco-cartels’, 1642.
56 Idem 1642.
1.2 The beginning of the illicit narco-trafficking in Mexico

The commence of illegal drug trafficking can be traced back to the Mexican Revolution of 1910, whereby revolutionary leaders in Mexico were more concerned with political survival than with adjusting opium trafficking. Meanwhile prohibition in the United States of America started in 1909 with the Shanghai Conference for opium control followed by the Harrison Narcotics Act of 1914, which aimed to control opium consumption. This legal commerce on one side of the U.S.-Mexican border, in combination with the prohibition and the opium demand on the other side, created the ultimate settings for illicit drug trafficking.\(^59\) Namely drug trafficking began as an answer to U.S. opium demand, whereby drugs exports from Mexico to the U.S. flourished as a result of new high prices resulted from the new born illicit market caused by prohibition in the U.S..\(^60\)

During the Mexican Revolution, Mexico said goodbye to the dictator Porfirio Diaz, which made place for a legitimate new order by a 1917 constitution, followed by the foundation of Mexican state party the Institutional Revolutionary Party (PRI) in 1929, which ruled Mexico until 2000. The PRI which ruled for seven decades had shaped a typical political culture and practice of policies which have led to a denial of internal democracy, corruption, pragmatism, patronage, and corporatism.\(^61\) Hence, the PRI could be seen as a union of aiming politicians looking not only for positions of power and prestige but who also sought opportunities for private enrichment. This political order in the Mexican history served the president and other high ranking officials with comprehensive powers and made it the core of the Mexican state reinforced by a revolutionary party,\(^62\) while drugs in Mexico such as cocaine, opiates and marijuana were commonly used and easily obtained for medical reasons.

In 1920 and respectively 1926, marijuana and poppy commercialization in Mexico were prohibited by law with the ‘diario oficial 03/15/1920 and la farmacia 1926’.\(^63\) These national prohibitions were controlled by the foundation of the dominant Mexican state party in 1929.\(^64\) These law prohibitions were accompanied by an instant response from poppy cultivators in the north and western Mexican states which converted this region into the ultimate drugs business basis with the abilities and capacities for drug trafficking. In the 1930s, the most important illegal drugs cultivated in Mexico were marijuana and poppy.

\(^{60}\) Maria Celia Toro, *Mexico’s “war” on drugs. Causes and consequences* (Boulder 1995) 7.
\(^{63}\) Idem 3.
\(^{64}\) Idem 21.
During these years the production of marijuana could be counted in tons and could be traced back in several Mexican states in the surrounding of the Federal District (Mexico City). At the same time, fortunes in the North-Western region of Mexico were made with opium smuggling.65

Noteworthy is the fact that while prohibitions by law on poppy and marijuana came into play, the political system in Mexico converted into a state party system, a social pyramid with the president at the top who had the power over the judicial and legislative branches.66 Some members of this new political class took advantage of their positions of authority to accumulate fortunes and invest in numerous businesses.67 Drug trafficking was just an additional profitable business that could be realized by powerful members of the state apparatus. Around this time, a number of political scandals appeared involving Mexican state officials related to drug trafficking.68 Based on this we could state that the birth of the illicit drug market was profitable enough to fuel the interest of mighty politicians. In addition, under the ruling time of the PRI, connections with drug traffickers were not much of a secret.69 Therefore, at the beginning, drug traffickers relied upon political economic actors.70

This corruption development around drug trafficking business came more into play in the drugs-booming-1960s in which drug demand, specifically from the U.S, increased and Mexican drug supply responded to this demand. These corrupt practices became known as ‘la plaza’. Under this concept drug traffickers could continue to bribe governors, policeman, mayors, military officials and others with high positions in order to get a ‘permission’ to do their job.71 Therefore political agents should be linked to drug production and trafficking business on the ground that the power to control and to regulate drug trafficking lied with the state and their officials who desired profit.72 Thus, one could argue that the ‘mordida’ – a Spanish term which means bite and refers to corruption and bribes related to drugs business -

66 Idem.
68 Idem 57.
was born during the birth of the illicit narco-market between Mexico and the U.S and will continue to exist.

Corruption should be seen as a continuous factor of Mexican political life. Alan Riding, author of Distant Neighbors, describes this corruption phenomenon in Mexico as “the abuse of power to achieve wealth and the abuse of wealth to achieve power.”\(^{73}\) Similarly, the U.S government handbook on Mexico elaborates on this as “the rules of political competition.”\(^{74}\) Nowadays, corruption still widely occurs in Mexico. The question arises: ‘why is corruption in Mexico so persistent?’

Some argue that the cultural behavioral norm of the Mexican society contributed to corruption. These cultural factors could be traced back to the Spanish colonialism were personal enrichment and corruption were widely habituated at the expense of the Spanish ‘Corona’.\(^{75}\) Others point their fingers towards the structure and political practice of the PRI. Still, it is not sure when corruption started. However, the increasing scale of corruption is noteworthy. As the author Mike Grates states, “in the old days, mordida was accepted as an efficient lubricator, a means of getting things done while sharing the wealth in an otherwise unequal society. But with the arrival of the narco-billions everything shifted gears.”\(^{76}\) In Mexico, corruption began to get out of control.\(^{77}\) The drug trade has not only survived, it has also flourished over Mexican drug control struggles.\(^{78}\) In addition, corruption should be seen as a side effect of the illicit drug markets. Being a market participant within the clandestine markets entails intimidating and bribing law enforcement, public officials, and judicial representatives on both sides of the U.S.-Mexican border. Organized crime cannot endure without the corruption and collaboration of state officials from all levels. Moreover, drug trafficking implies the invention of new openings to produce and excavate corruption. Therefore, even though not a new occurrence in Mexico back then, the drug trade did aggravate corruption.\(^{79}\)

For that reason, at the end of this chapter I will elaborate more on the meaning of corruption. Moreover, chapter three will pay profound attention to the relation between

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\(^{73}\) Alan Ridding, Distant neighbors: a portrait of the Mexicans (New York 1986) 164.

\(^{74}\) James Rudolph, Mexico: a country study (Washington DC) 283.

\(^{75}\) Emily Edmonds-Poli, and David A. Shirk, Contemporary Mexican Politics. (Plymouth 2012) 264.


\(^{77}\) Idem.


corruption and drug trafficking. In order to place corruption within the context of the Mexican drug history we should first pay attention to the economic development and the developments within the drug industry in order to comprehend the factors which have contributed to Mexico’s growing drug trafficking business and the worsening corruption.

1.3 1960-1980: U.S anti-drug policies and a rising trade in marijuana and heroin

During the 1960s and 1970s investments stemming from the U.S. flowed into Mexico to take advantage of Mexico’s import substitution industrialization model (ISI), which had been the economic model since 1940 and stimulated and secured the development of Mexican national industries. During that time Mexico seemed to kick off a period of economic growth, industrialization, and political stability led by the PRI. Due to a dependable peso-dollar exchange rate, bilateral trade between Mexico and the U.S. boomed. At the same time, the interplay between the U.S.-Mexican border and illicit drugs started to rise. In the 1960s, the demand for drugs supposedly increased in the United States because of the flower-power era. During the sixties and seventies the U.S demand shifted from marijuana to heroin, cocaine and other consciousness-expanding materials, and as a consequence, the Mexican supply also shifted from marijuana, to heroin and cocaine. With the border still open, illicit drug trade was booming, and so were their profits. Mexico started as a main supplier of marijuana in the sixties and later became almost a monopolist in supplying the U.S. market with heroin during the 1970s.

These developments were not very welcome for the United States. The U.S anti-drugs policies did not receive a great deal of attention until president Richard M. Nixon came into office in 1969. In that year, Nixon declared ‘operation intercept’ which closed the U.S-Mexican border and led to all vehicles that wanted to cross the border being searched. The results of this measure led to chaos at the border, while only a small amount of drugs was intercepted. Therefore Mexico and the U.S discussed alternatives, whereby they agreed on increased technical assistance and aid from the U.S. to Mexico. This campaign called ‘Campanya Permanente’ and implied the eradication of marijuana and poppy fields. This campaign also did not lead to the results that they had hoped for.

80 Grayson, Mexico: Narco-violence and a failed state?, 27.
82 Cornelius Friesendorf, Pushing drugs. The displacement effect of the cocaine and heroin industry as a side effect of U.S. foreign policy (Zurich 2006) 75.
The U.S. under the Nixon administration tried to convince the Mexican government to destroy marijuana fields by using the chemical ‘paraquat’. At first Mexico refused to use the chemical due to economic reasons. Since U.S. farmers were hit by recession, the U.S. were importing agriculture products from Middle and South America, and Mexico did not want to endanger this export opportunity by spraying chemicals on her land. Likewise, marijuana itself was not a serious Mexican social problem; it was ‘just’ an export product to the U.S. Nevertheless, in 1977, the Mexican political system started to show flaws. The political apparatus within Mexico began to change and the PRI – which ruled since 1929 - was being challenged by opponents; the PRI elite party was facing resistance from the poor for whom the Mexican revolution was still pertaining. This resistance occurred mainly in rural areas where marijuana was being grown. Even though the Mexican state and the army were aware of this, it was not in the interest of the state to combat these marijuana fields. Ultimately, the U.S. warned Mexico that if the marijuana flow to the U.S. did not end, the U.S. would stop aid payments for the ‘Campaña Permanente’. Together with the thought that the opposition party in Mexico was financed by the trade of marijuana, the PRI decided to combat marijuana fields. In addition, the U.S. supported the PRI by providing them with weaponry, helicopters, and the chemical ‘paraquat’ to combat their ‘political enemies’. The results for both the PRI and the U.S. were not desirable. The ‘Mexican spraying campaign’ did not stop the drug trade. On the contrary, it shifted the Mexican supply of marijuana to the supply of heroin and later cocaine.

Before Mexico became the major supplier of heroin to the U.S., the heroin consumed in the U.S. came either from Turkey or South Asia and therefore used to be of little significance in the Mexican drugs industry. The disruption of the French Connection – a strategy whereby heroin was smuggled from Turkey through France to the United States – in combination with the aforementioned consequence of the ‘Campaña Permanente’ meant the beginning of the involvement in heroin business by Mexican traffickers, which resulted in a near monopoly in the supply of the total U.S. heroin demand during the 1970s. During this time poppy farmers in Mexico began to shift their production to more isolated and smaller locations. Hence, where the Mexican drug involvement was once geographically limited,

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85 Idem 96.
86 Idem 96.
87 Friesendorf, *Pushing drugs*, 25, 75.
during the seventies the heroin production permeated throughout the whole country. These developments altered Mexico into a heroine monopolist for the U.S. market by the end of the 1970s.

1.4 Cocaine shift from Colombia

In the 1960s and 1970s the U.S. demand for cocaine was mainly fulfilled by Colombian and Caribbean supply. Therefore, from the 1940s until the 1970s cocaine was of little significance to Mexico. This began to change; in the eighties when Mexico became a transfer point for drug cartels from Colombia due to U.S. attempts to eradicate cocaine trade via the Caribbean. These attempts made it more challenging for Colombian traffickers to transport their product via Caribbean routes. Hence, Colombian drugs lords sought cooperation with the Mexican drugs organization of Miquel Angel Felix Gallardo who has been operating along the U.S.-Mexican border. This alliance between Felix Gallardo and Colombian drug trafficking organizations produced a formidable drug cartel that would be operative throughout the 1980s.

This preliminary participation of Mexican drug lords in the cocaine business was troublesome in a way that it expanded cocaine markets, while in the meantime political and economic interests of individuals participating in drugs markets were rising. Especially, the Sinolean state of Mexico – which served as a leading producer of marijuana and heroin—became a permanent route for cocaine. These developments worsened, specifically between 1989 and 1992, when U.S attempts to go after financial assets of Colombian drugs cartels created new favorable circumstances for Mexican traffickers, who began to take payment in cocaine rather than cash. This resulted in Mexican traffickers owning a sizable share in profitable U.S wholesale and retail markets. This share was later solidified by producing or expanding cartels of their own. Because of the skyrocketing cocaine trafficking alongside the American border, the U.S. started to redirect massive anti-drug efforts to the Mexican border, which indirectly led to the birth of the Mexican Drug Cartels alongside the border. This moment can be traced back to the moment where Felix Gallardo got arrested in 1989. Inside prison, Felix Gallardo tried to continue to control his drug operations. Nevertheless, his coworkers outside were tangled in a constant struggle to take control over the drug trafficking.

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90 Carpenter, *Bad neighbor policy,* 171.
92 Carpenter, *Bad neighbor policy,* 171- 172.
operations along the U.S-Mexican border. With his drug colleagues rivaling for control over the trafficking business and the U.S. installing massive anti-drug efforts on the U.S.-Mexican border, Gallardo sent a message from prison to his co-drugs-workers that intra-organization disputes had to be settled. Therefore, Gallardo dictated a territorial division of his organization. This moment can be seen as the birth of Mexican drugs cartels controlling the U.S.-Mexican border: the Tijuana Cartel, the Sinaloa-Sonora Cartel, The Juárez Cartel, and the Gulf Cartel with each ‘leader’ controlling one smuggling passage to the U.S.. Hence, in 1989 the U.S had not to combat the Monopolist Gallardo alongside the border, but four criminal organizations instead. These four cartels are nowadays responsible for at least 70 % of all the drugs entering the United States.

Thus, while the percentage of cocaine entering the American market from Mexico was insignificant in the early 1980s, by the early 1990s Mexico had become the preferred route of choice of Colombian cocaine shipments. As aforementioned, the underlying economic developments -the liberal reforms, the NAFTA agreement, and the severe economic crises-made prone to drug trafficking. To illustrate with cocaine estimates, according to U.S. State Department in 1989 a third of cocaine for the U.S. market entered through Mexico. By 1992 this number had risen to 50%, and by the late 1990s to in between 75% and 85%. Nowadays approximated calculations state that 95% of cocaine consumed by the U.S. stems from transit routes through Mexico. Former U.S. president Bill Clinton recognized this shift from Colombia to Mexico. As he stated in 1999: “We had a lot of success a few years ago in taking down a number of the Colombian drug cartels, but one of the adverse consequences of that was a lot of the operations were moved to Mexico”. A Few months later in February 2000 former U.S ambassador in Mexico, J. Davido, created an uproar when he stated that Mexico had become the world’s “main headquarters for drug traffickers”.

1.5 Drug links between the state and drug trafficking organizations
As already mentioned, corruption shifted gears as more and more narco-dollars more and more started to enter Mexico. However, corruption should be seen as constant factor within the Mexican society and related to drugs. In this section, I will shortly discuss the link between the Mexican state and drug trafficking organizations. This link reveals the weakness

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94 Idem 28-29.
97 Carpenter, Bad neighbor policy, 171.
of the Mexican state apparatus and should be seen a state failure to control illicit markets and to control corruption. This connection makes that the Mexican state and drug cartels are not complete separate entities which should be taken into account in the debate -beyond this thesis- whether Mexico is becoming a failed state or not. Therefore the connection reveals that illegal trans-border activities seen in rents and corruption thus challenge state authority and state control in Mexico. In an IPE and IIPE perspective this market failure and state failure needs to be seen as tensions in the interplay between the (illegal) drug markets, the Mexican state, and the Mexican society.

As aforementioned, the Mexican government handbook on Mexico describes corruption as: “the rules of political competition”. Moreover, it distinguishes two forms of corruption: ‘la mordida’ and large-scale corruption. The former refers to bribes to low level state officials. The latter denotes to financial deals and illegal payments from contracts. According to Mexico/narco specialist Peter A. Lupsha, these two forms of corruption reveal the setting of narco-corruption in Mexico and thus the relation between the state and drug traffickers. Lupsha coined this occurrence as the ‘dance of narco-corruption’: “A dance which over time exhibits certain rhythms, repetitive steps, and patterns. While these are not mutually exclusive, certain patterns or rhythms do seem to appear and reappear at various historical moments.”

Lupsha made a distinction between several periods of narco-corruption. In short, these periods reveal a lingering corruption trend. Where once (1960-1965) ‘la plaza’ dominated, over time corruption from the military, the police and the state related to drug business ensued. Moreover, Lupsha points out that between 1985 and 1990 a more decentralized pattern of corruption within different regional states within Mexico appeared. Lupsha’s last period starts at the 1990s, when according to him all corruption connections were occurring: corruption under ‘la plaza’, but also corruption under the state, military and police seemed to play an antagonistic role in the drug trade. As we will see in chapter three, while corruption seemed to penetrate Mexico’s law enforcement, drug trafficking and controversially anti-drug efforts expanded.

1.5.1 The end of the PRI
In the late 1980s Mexico’s political monopoly, the PRI, lost ground, resulting in the victory of former president Vincente Fox (2000-2006) of the National Action Party (PAN) and

99 Idem 41-42.
accompanied by an increase of drug related violence. For the first time in seventy-one years, the PRI no longer controlled the presidency. This new political course resulted in a power vacuum which led to more violence as the Mexican drug cartels had to the fight for their share in the newly unstable drugs market which was no longer ‘regulated’ at the same level as it was during the ruling time of the PRI. Nowadays corruption in Mexico under Calderón is still pervasive. As already mentioned in the introduction of this chapter, the current president Calderón declared war against the Mexican drug trafficking organizations. In just a couple of months, from December 2006 to August 2007, Mexican authorities arrested nearly 10,000 people for drug-related crimes. Under the administration of Calderón, violence increased tremendously while the flows of drugs remained unimpeded. Therefore, in the following chapters I will elaborate on the untrustworthy relationship between drug business and policing drugs business which is accompanied by huge profits and corruption by drawing upon the IPE and IIPE features: the interplay between the state, the market, the illegal market and the society with the analytical framework rent-seeking.

100 Mercille, ‘Vilolent narco-cartels’, 1643.
1.6 Conclusion
This chapter aimed to find an answer to the question: how did Mexico get involved into the illicit drug business? The answer to this question was found in numerous factors that have contributed to the enlargement of connections among criminal networks and to the increase of incentives for trafficking, violence and corruption in Mexico. Mexico’s geographic position as a neighbour to the United States is a crucial explanatory factor for Mexico’s drug business, due to a demand and supply rhetoric. This struggle between the U.S. and Mexico against illicit drug trade started during the Mexican revolution, where only at the north-side of the U.S.-Mexican border drugs were prohibited by law. When in 1920 and 1929, respectively marijuana and poppy cultivation became prohibited in Mexico, the trafficking had already started. The incentives in profit seeking by high state officials facilitated the illicit drug business in Mexico to flourish. Under the ruling of the PRI, drug trafficking was seen as an additional profitable business. These corrupt practices became known as ‘la plaza’, whereby ‘licenses’ to traffic were bought from high state officials via bribes.

During the 1960s and 1970s, there was an increase in the demand for drugs from the United States, and Mexican drug traffickers responded to this by increasing their supply. During those years a shift in demand and supply took place from marijuana to heroin and cocaine. This altered Mexico, during the 1970s, into a monopolist of heroin to the U.S.. This was followed during the 1980s by a clear shift from cocaine business stemming from Colombia to Mexico, which has resulted in the present situation of Mexico nowadays supplying around 95% the cocaine consumed in the U.S.

Another underlying crucial factor which has contributed to the rising drug business in Mexico was the country’s poor economic situation. From the 1970s Mexico underwent dramatic economic crises which enlarged the drug industry in Mexico, as more Mexicans got involved in the drug business due to two motives: to be employed and to get out of an severe economic personal situation. In addition, the imposed neoliberal policies which increased the amount of trade and commerce across the U.S.-Mexican border facilitated the smuggling of large amounts of narcotics. In addition, the liberal reforms did also racketed new opportunities to engage in drug trafficking and as we will see to embrace ‘rent-seeking’ behavior. Chapter three will profound elaborate upon these consequences of the liberal reforms seen in competition law and privatization.

A third important facet which deeply contributed to the flourishing drug business in Mexico is corruption. In earlier years high political officials could be bribed in order to continue drug trafficking. While drug trafficking expanded, so did corruption in Mexico.
During these years, with drug business and thus drug profit margins increasing, corruption seemed to get out of control. Corruption through Mexico again flourished over the drugs business. Therefore we should link political agents to drugs production and trafficking business on the ground that the power to control and to regulate drug trafficking lied with the state and its profit-seeking officials.

In 2000 Mexico said goodbye to the PRI by welcoming Vincente Fox of the PAN. Unfortunately, this new political order was accompanied by an increase in drug-related violence, as the new political course was trying to stop drug trafficking and practices of corruption. This resulted in a power vacuum for the Mexican drug cartels, which were striving to secure their share in the newly unstable drugs market which was no longer regulated by political members of the PRI. Nowadays corruption in Mexico is still triumphing and the war against drugs did not lead to an end of drug trafficking in a way Mexicans and United States politicians had hoped for. To the contrary, drug flows remain unhindered and are accompanied by a rise in violence and an on-going battle against corruption.

Based on the findings of this chapter: the historical developments accompanied by market failure and state failure caused by the prohibition on drugs, corruption, and an on-going demand stemming from the U.S.. I should now elaborate upon the concept of rent-seeking of Public Choice theories. Namely, rent-seeking will provide us tools to understand the interplay between the illegal markets, the state and the society. Moreover, it guides as to investigate narco-profits and corruption by giving understanding how states, rational actors, institutions and economic interactions affect both political and economic structures in Mexico. Therefore in the subsequent chapter the concept of ‘rent-seeking’ will be introduced as a theoretical framework and analytical tool.
2 Theoretical framework: Rent-seeking

2.1 Introduction: Public Choice theories
Public choice is based on the hand-outs by academics as Kenneth Arrow, Anthony Downs, James Buchanan, Gordon Tullock, Mancor Olson and William Niskanen. The Public Choice approach tends to analyze political processes, and the interplay between the state and the economy, by lending modern tools of neoclassical analysis. This approach provides a study on the way of working of institutions and the behavior of governments, societies, political parties, voters, bureaucracies and interest groups. Therefore one could state that the public choice approach forms an integral part in the working field of International Political Economy (IPE), relating ‘rational behavior’ to areas beyond traditional economics. Moreover, based on the assumption that that the politics and practice of market-liberalization are contradictory with politics and practice of market-criminalization, it should be integrated in the sub-academic field of IPE; Illicit International Political Economy (IIPE).

Public Choice theories are characterized by three appearances. The first feature is the individual taken as the unit of analysis. The individual is assumed to be ‘rational’, which means that the individual would choose actions that yield the highest net benefits according to its own preferences. The second feature of the public choice approach is that preferences are assumed to be constant whereby behavior can be explained based on changes in the freedoms to which a rational individual is exposed. The third feature is that the analysis of public choice theories emphasizes thoroughness and the outcomes can be subjected to political and/or economical enquiry.

One of the most important insights that Public Choice analysis has offered IPE involves the concept of rent-seeking behavior. The term rent-seeking stems from the economist Anne O. Krueger and signifies the resource-wasting activities of individuals in seeking transfers of wealth through the tutelage of the state. This concept is inherited from a classical liberal school of thought in a way that it combines the government – seen in state intervention by providing market disequilibrium, scarcity, and inefficiency (market failure in

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the state) - and the market economy -seen in the rational desire of profit maximization-. Therefore, the liberal classical concept underwrites the assumption that these two actors together provide certain market rights whereto government officials and market participants are rational and will seek to participate in the process of creating monopoly rents and obtain those market rights. This occurrence decreases the market efficiency because rent-seeking dissipates resources instead of using those resources to produce a product or a service.

In general, governmental limitations in the form of quotas, prohibitions, permits etc., give rise to rents in many forms whereby individuals are likely willing to compete for those created rents. In addition, rent-seeking as a comprehensive concept describes the use of resources to capture a transfer instead of producing a good or a service. Moreover, rent-seeking needs to be understood in a wider perspective. Likewise, as Anne O. Krueger stated: “In other instances, rent seeking takes other forms, such as bribery, corruption, smuggling, and black markets”. Moreover, an important feature of rent-seeking is the role of the state and the functioning of institutions. Namely rent-seeking is inherently related to the range and scope of governmental involvement in the economy but also related to the proper or corrupt working of institutions and the interactions with individuals. In the pure liberal classical framework of rent-seeking the rule applies that the more the government is involved in economic life, the more likely rent-seeking opportunities will exist. Actually -beyond the classical framework-, to expose rent-seeking one needs to focus on state interventions in markets in combination with the informal and formal institutional order. Therefore the more adequate concept of rent-seeking, away from the classical rent-seeking framework- also emphasizes good governance, proper working institutions, and transparency. Rent-seeking can thus take place within the market via lobbies for property rights and contracts but also outside the market – in a much more obscure way of bribing and corrupting.

The concept of rent-seeking is chosen for a couple of reasons. Firstly, drugs such as cocaine, heroin, and marijuana are commodities which have a huge demand and supply rhetoric in international markets and are a very profitable business to involve with. Secondly, the international community, individual states, and international organizations, and drug traffic organizations are involved actively -by setting rules in the forms of prohibitions and by

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trafficking an sich- and passively by naming, framing and campaigning about the prohibition and effects of drug use. This could be seen as a battle of interest whereby lobbying for certain rules exists or certain economic monopoly positions could be obtained by traffickers and state officials. Hence the question thereby rises: ‘why are some groups able to obtain their desired goals and others are not?’ Public Choice theories thereby are ideal to analyze these kinds of issues because the abovementioned issues touch upon the core of public choice theories.

This chapter aims to answer the question: ‘what is rent-seeking and how can we use it as an analytical tool to address Mexico’s ongoing battle against drug trafficking?’

Central to this thesis are the illegal drug markets and the corresponding corruption by state officials. As. Krueger stated, both illegal markets and corruption are forms of rent-seeking. Therefore, in this chapter both forms of rent-seeking will be elaborated upon.

Based on that, the structure of this chapter is as follows. First, rent-seeking will be elaborated upon as a general concept, whereby the difference will be made between profit-seeking and rent-seeking. Next, the underlying logic of classical rent-seeking in legal markets will be discussed in combination with the involvement of a state in markets whereby market disequilibria and scarcity will be addressed. After the logic of rent-seeking in legal markets and the accompanied concept of scarcity, illegal markets will be addressed related to rent-seeking, whereby attention will also be paid to illegal ways of competing for created rents, such as corruption and violence. Subsequently, a section on the role of state, institutions and the informal institutional order will be given, in order to clarify the second form of rent-seeking addressed in this thesis, namely corruption as a form of rent-seeking outside the working of the illegal market.

2.2 Rent-seeking, a general concept
As mentioned in the previous section, rent-seeking signifies the resource-wasting activities of individuals in seeking transfers of wealth through the tutelage of the state.\textsuperscript{112} Or differently stated: ‘Rent seeking is the expenditure of scarce resources to capture an artificially created transfer’.\textsuperscript{113} Moreover, rent-seeking as a broad concept describes the use of resources to capture a transfer instead of producing a good or a service.\textsuperscript{114} In general rent-seekers are persons who abduct wealth and do not produce wealth for the society. To illustrate, smugglers who do not pay tax but traffic their goods across borders, civil servants who

\textsuperscript{114} Pius V. Fischer, Rent-seeking, Institutions and Reforms in Africa: Theory And Empirical Evidence for Tanzania (New York 2006) 2.
demand bribes from their clients, entrepreneurs who lobby to reduce competition to become a monopolist and earn monopoly rents, business people who pay-off civil servants in order to ‘win’ a tender,115 and drug traffickers who bribe policemen in order to conduct their business.

The theory behind rent-seeking had already been developed by Gordon Tullock in 1967 in his article ‘The Welfare Costs of Tariffs, Monopolies and Theft’.116 Moreover, as James Buchanan stated, one could argue that rent-seeking behavior has always been present, nor will it disappear.117 Furthermore, and central in this thesis, rent-seeking has become more essential as institutional changes have generated opportunities that did not occur in the nineteenth and twentieth centuries.118 Likewise, Mancur Olson argues that the rise in pressure from civil societal groups should be seen as a factor in the declining economic growth rate in a way that these groups use the power of the state to prosper their own economic welfare.119

Although tons of definitions of ‘rent’ exist, a valuable definition relating to the term rent-seeking stems from the book: ‘Toward a Theory of the Rent-Seeking Society’, edited by James M. Buchanan, Robbert D. Tollison, and Gordon Tullock- and others: ”Rent is that part of the payment to an owner of resources over and above that which those resources could command in any alternative use. Rent is receipt in excess of opportunity costs.”120 In other words, rent is a neutral term which represents the market value of used resources. Consequently, individuals are attracted to rents because they represent a surplus over cost. We could thus state that as long as owners of resources prefer more over less, they will likely behave as rent-seekers, which is simplified profit seeking as we know from traditional economic models that are based on the underlying assumptions that one seeks to maximize present values of incomes or wealth.121 In a similar way, drawing upon a rational choice perspective, persons will rationally engage in rent-seeking activities as long as the benefits prevail over the costs.

2.2.1 The difference between rent-seeking and profit-seeking
The difference between profit-seeking and rent-seeking is noteworthy and indispensable to clarify the meaning of rent-seeking behavior as a general concept. However, the difference between profit-seeking and rent-seeking is often not clear and in the literature on rents and

115 Idem 2.
118 Idem.
120 James M. Buchanan, ‘Rent Seeking and Profit Seeking’ (Texas 1989) 3-15. There 3.
121 Idem 3-4.
profits the distinction is sometimes hard to find. To illustrate, rent-seeking behavior is also described by Jagdish N. Bhagwati as ‘directly unproductive profit-seeking’. Nevertheless, in this thesis we follow the logic of James Buchanan, who states that in a utopian market profit-seeking produces ‘good’ consequences as seen as a characteristic of the order itself; the social marginal product of profit seeking exceeds the private marginal product. Therefore one could state that this generates more welfare and positive externalities to all. To the contrary, rent-seeking produces ‘bad’ consequences. The behavior under a different set of institutions may not produce social benefits to all. In addition, results of individual efforts to maximize profits may generate social waste instead of social surplus, or differently stated welfare loss and negative externalities to all.

These ‘bad’ unintended consequences and the ‘good’ unintended consequences in principle do not mean that the individual behavior is different, nor that some individuals are immoral; it just means that institutional structures have changed. This set up of structures within which individuals are making decisions and are acting has changed. Namely, institutions have shifted from ordered markets towards a chaotic system of allocation, whereby rent-seeking has come up as a social occurrence. This set up of structures and institutions refers to governmental involvement via restrictions, quotas, permits etcetera, into markets. Therefore the next section elaborates on state intervention inside markets, which will clarify the underlying logic of rent-seeking.

To conclude, the contrast between rent-seeking and profit-seeking lies in the outcome for the society as a whole, that is social surplus versus social waste. In both cases of ‘seeking-behaviors’, rent is sought and dissipated. In short, one should see rent-seeking as wealth-transfer seeking for individual purpose without producing a good or a service. Therefore, the difference between rent-seeking and profit seeking lies in the dissipating of wealth instead of the creation of wealth. Therefore, rent-seeking reveals dissipating rents outside the working performance of the market. Those dissipated rent are therefore not obtained by market performance and needs to be seen as sub-optimal outcomes. On the contrary the rents of profit seeking are created by market performances and should be seen as a merit. These aforementioned indicators thus reveal the difference between rent-seeking and profit seeking.

124 Idem 4.
and are indispensable for the understanding of the implications of rent-seeking to society as a whole as rent-seeking reveals severe welfare implications and profit-seeking does not.

2.3 Underlying logic in legal markets and identifying rent-seeking

As been mentioned before, rent-seeking can take place in the legal market in the form of lobbying for property rights and contracts. This can lead to market distortions, for example the creation of monopolies through unfair division of resources. Crucial questions considering rent-seeking are: ‘What is the underlying logic?’ and ‘Can we measure rent-seeking?’ According to some, rent-seeking behavior can be identified and the associated social waste can in first instance be measured.\(^{126}\) In order to measure this social waste, one needs to look at the monopoly waste and other market distortions which will show the abducted wealth in the forms of rents. To the contrary, a preliminary remark thereby is that these revelations in the real economic world are hard to find, as rent-seeking waste could be revealed as a substitute of one person’s own meaning of value.\(^{127}\) Therewithal, cost and worth for one is not the same and will differ per person. In addition, real world markets are hardly ever in equilibrium and decisions by market participants are rarely perfectly matched.\(^{128}\) Moreover, another point of critique is the static character of the market equilibrium model which does not give a comprehensive impression of the market developments. In other words, the dynamic inside the markets is not shown within the perfect market equilibrium towards monopoly equilibrium. Therefore, as always, economic theory on paper does not resemble the real world mathematic outcomes. Thus, this rent-seeking waste concept should be shifted a bit from an neoclassical economic theory towards a more prescriptive theory.\(^{129}\)

Still, one could state that a close relationship between the measurement of monopoly waste and rent-seeking exists. Hilton Friedman defined monopoly as “a situation where demand is not perfectly elastic.”\(^{130}\) In studies to welfare losses and welfare costs of monopolies, the long-run equilibrium is used to analyze these costs in a perfect competitive market equilibrium where demand and supply lead to the optimum price whereby no societal loses and profits are to be found. Thereupon, in the long-run equilibrium framework without perfect competition, but with monopoly positions, all associated profits are seen as welfare


\(^{128}\) Idem 124.

\(^{129}\) Idem 123.

losses for the society as a whole.\textsuperscript{131}

Important to the concept of rent-seeking is the fact that a small group of persons benefits extremely. Namely, a huge part of the welfare losses- besides the negative externalities- ends up in their pockets for individual purposes. Similar, and of later importance for this thesis, is Mancur Olsons’ work on interest groups. In his book: ‘The Logic of Collective Action: Public goods and the theory of groups’, Olson explained why certain groups are able to pursue their interest and other are not. He speculated that “only a separate and ‘selective’ incentive will stimulate a rational individual in a latent group to act in a group-oriented way”:\textsuperscript{132} in other words, members of a large group will not act in the group's common interest unless motivated by personal gains.\textsuperscript{132} To conclude big groups are less capable of pursuing interests than small groups. The logic behind this lies in costs, coercion and higher private gains.\textsuperscript{133} Adding this logic of collective action to rent-seeking reveals likewise that small groups profit extremely from rent-seeking while the greater majority losses.

To illustrate (see figure 1) the losses for the greater majority and the extreme gains for a small group: in rent-seeking the deadweight loss -a part of consumer surplus and a part of producer surplus- is the welfare loss to society as a whole. In addition the producer surplus reveals the dissipated rents or the wealth transfer by an individual at the expense of others. These graphed wealth transfers are sought through restrictions on entry facilitated by the state to obtain a monopoly position. According to the classical liberal economics, the more the imperfect competition equilibrium deviates from the perfect market equilibrium, the greater the deadweight loss will be. As mentioned above, the welfare losses in the real world are hard to analyze due to its comparative static equilibrium model, the fact that regular markets are hardly never in equilibrium, and because cost and worth are not measurable individually.

\textsuperscript{132} Mancur Olson, \textit{The Logic of Collective Action: Public Goods and the theory of groups} (Massachusetts 1971) 51.
\textsuperscript{133} Idem.
Following the classical model, as long as governmental restrictions are minimized, so are the rent-seeking opportunities. Likewise, whereas governmental involvement in the market occurs to protect individual personal and property rights, market forces will not be able to control economic behavior, which will not result in an optimum price because the force of competitive entry in the market will not function properly. Therefore, efforts will be made to capture these rents, whereby the associated resources used in these efforts will lead to social waste. If supply is restricted to certain persons, the price is allowed to rise whereto the artificial price causes a loss in social welfare, which ends up in the pockets of those possessing the ‘rights’ to supply a certain good or service. As already mentioned, a step away from this classical model, markets are hardly ever perfect; therefore one should consider the fact that minimizing state intervention does not rigidly mean that rent-seeking opportunities are minimized. Namely, market participants will always strive to obtain a more beneficial position within the markets. Moreover, as we will see later on in this chapter, the functioning or dysfunctioning of institutions plays an integral role in rent-seeking behavior.

Similarly, essential and comparable in this manner is the concept of scarcity, whether natural or artificial. The latter occurs when supply is restricted by governmental licenses, permits, authorizations, and quotas, whereby prices are allowed to rise via the market. The

136 Idem.9
former appears when a commodity as such is scarce. But regardless of the nature of scarcity, it will lead to the potential emergence of rents which additionally lead to rent-seeking activity. Therefore one could conclude that political interference within the market leads to advantageous positions for individuals who want to benefit from the values of a certain commodity.\textsuperscript{137} To be more precise - a step away from the classical model - this creation of rents also occurs when market participant emulates to obtain a monopoly position via a patent, or other ways of limiting competition within the markets. It is therefore the market form caused by the government or the markets participant what leads to scarcity and the accompanied emergence of rents. To conclude, rent-seeking can be exposed within efforts to obtain numerous monopoly rights stemming either from free competition or government interventions.

\textbf{2.4 Rent-seeking in illegal markets}

Nowadays government restrictions in many market economies are general facts. As we just discussed, these restriction lead to scarcity and are opening the path towards rents, with individuals competing for those rents. In many cases, this competition amongst individuals is legal. To the contrary, in some cases this competition is illegal by nature. As mentioned before, “examples are black markets, corruption, smuggling and bribery”, and specifically for this thesis the drug market.\textsuperscript{138}

The same logic as abovementioned applies to illegal markets: if the state restricts output and market access, prices on the short run will rise above the competitive - natural market - level and monopoly rents will occur. Likewise, market participants are willing to embrace rent-seeking by competing for positions which leads to monopoly rents created by restrictions. To the contrary, the primary difference between legal and illegal markets is the absence of government-enforced property rights and contracts in the latter. This results in the replacement of public enforcement by private enforcement. In illegal markets the governmental powers are used to undo trade in particular goods or services.\textsuperscript{139} The artificial restriction of these goods and service creates rents in a similar vein as the prices on the short run increase more, which will make business in an illegal market more lucrative. Important is that in principle one could argue that the state withdraws from regulating illicit markets, but

\begin{itemize}
\item\textsuperscript{137} Idem 9.
\end{itemize}
still this needs to be seen as a huge interference by the state in an economic market whereby rent-seeking opportunities are born and sought by market participants.

Studies about clandestine markets have greatly dealt with enforcement topics or property right matters. These studies showed some useful insights. Namely attempted suppression of voluntary transaction can only work if market participants will comply, if not, the state needs to invest additional resources in policing behavior. Secondly, the state withdraws from regulating the market and thus will no longer enforce contracts or property rights, leaving those functions unfulfilled whereby market participants can fulfill these positions. But, ‘what happens if market participants disobey and the market is no longer regulated but prohibited’? In short, as stated above, rent-seeking behavior will appear because of the creation of monopoly rents. Moreover, revealed in a study of Lott and Roberts market participants will try to supply their own property rights protection which results in violence which on the other hand leads to negative externalities on the society as a whole. These negative externalities within illegal markets, or differently stated the social waste of rent-seeking, will transcend the value of dissipated rents. To be precise, as aforementioned, rent-seeking behavior hampers economic efficiency and creates welfare losses for consumers in a market. For the society as a whole, negative externalities such as violence and unrest should be seen as a loss in welfare. But still, where there are losers there are winners. Rent-seeking behavior pays off extremely well for a very small group at the expense of society. The logic of collective action thus explains why some obtain certain either legal or illegal privileges and others do not. Furthermore, in illicit markets the welfare loss for the whole society is greater than in ‘regulated’ legal markets caused by negative externalities in the form of crime and violence. This happens for a couple of reasons.

First, illicit markets create an opportunity for increasing profits. The struggle to capture these profits will lead to an escalation in the occurrence of crime. The obtaining and keeping of a monopoly in combination with strong-arming are complements in the making of a clandestine market and could be seen as the role normally fulfilled by the state taken over by monopolizing organizations. The outcome of rent-seeking is a positive function of the magnitude of captured rents. The promise of large ‘monopoly’ rents forms in principle the incentive to get involved in illegal markets. Secondly, the presence of scale

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140 Idem 105.
142 Idem 107.
143 Idem 108.
economies in illicit markets may serve as another incentive as these scale economies could also be found in the supply of violence and coercion where the state is not using its coercive power but market participants do. Thirdly, in clandestine markets suppliers are not likely to feel held back by institutional rules – as all activities by itself are already prohibited in illicit markets. Therefore, the withdrawal of state enforcement in granting property rights protection or contracts lead to unconstraint monopoly opportunities and competition whereby resources and social waste will flow into rent-seeking.\textsuperscript{144} Social waste in this manner should be seen as a consequence of rent-seeking behavior which is greater in illicit markets than in legal markets.

On the contrary, in the long run prices will decrease because of rising participation in the clandestine market. In a similar vein, Bertram, Blackman, Sharpe and Andreas in their study to drugs policy, ‘the price of denial’, observe that drugs are ordinarily cheap and easy to produce, transport and sell. However, “as a result of government prohibition they are extraordinarily profitable for produces and traffickers” whereby each stage of production and distribution represents a significant markup over the previous stage.\textsuperscript{145} This increased enforcement in the form of prohibition increases the revenue of additional production whereby on the long run increased enforcement can have the reverse result of increasing participation in illegal markets resulting in increased availability and lower prices of the prohibited good. This occurrence is called the ‘profit paradox’\textsuperscript{146}. One concluding remark here is that therefore not the rise in price caused by prohibition in illegal markets which will lead to embrace rent-seeking behavior, but the attempt to capture monopoly rents is the incentive to act as a rent-seeker.\textsuperscript{147} In short, the withdrawal of state enforcement to regulate a market or to grant property rights or monopoly positions generates rent-seeking incentives in illicit markets in the battle to capture monopoly rents caused by prohibition.

\textbf{2.4.1 Rent-seeking outside the productive area of the illegal market in the form of corruption}

As the markets itself are illicit, so are the ways to enforce property rights or monopoly positions. This results in acts of corruption, bribery or violence in order to obtain the abovementioned rights.\textsuperscript{148} From that perspective, attention needs to be paid to corruption.

\textsuperscript{144} Idem 108.
\textsuperscript{145} Eva Betram, Morris Blachman, Kenneth Sharpe, and Peter Andreas, \textit{Drug war Politics: The price of denial} (California 1996) 12.
\textsuperscript{146} Idem 13.
\textsuperscript{148} Idem 109.
The literature that covers corruption has overlapping elements with rents. To define corruption, the literature is loaded with definitions; however corruption can be well determined as ‘the transgression of formal rules governing the allocation of public resources by officials in response to offers of financial gain or political support’. Therefore one can state that corruption, like other forms of rent-seeking, signifies a manner to discharge market forces and to influence policies towards one’s own benefit.

In order to give a comprehensive view of corruption as a form of rent-seeking, one needs to add some dimensions to the framework of rent-seeking. Namely corruption differs from other forms of rent-seeking in several ways; by referring to law (it is illegal), with respect to transparency (it is hard to prove and find), in spite of welfare transfers (they directly end up in pockets), and competition is limited (it is not an official public political competition).

Moreover, looking at corruption as a negotiating process in illicit business of selling property rights or permits, private agents will tend to negotiate their way in order to obtain a privileged position whereby the corrupt official will award the highest bribe. In that sense one can state that allocation efficiency is maintained as the private agent with the lowest cost can pay the highest bribe. This maintaining of allocation perspective gives an impression that the highest briber will win the competition and can bribe the state official. Therefore, altogether corruption should be seen as a not easily understood dark form of rent-seeking, which adds a bit of a bitter taste to rent-seeking as corruption has worse welfare implications than alternative forms of rent-seeking due to its illegal uncontrolled character.

Risen importance in the study on institutions and their role on economic growth and development in the 1990s has led to research of behavior of bureaucrats whereby bureaucratic corruption and bureaucratic compensation received major interest. Bureaucratic corruption entails accepting bribes from groups and individuals who are searching for government favors. Moreover, bureaucratic corruption contains illicit appropriation of resources by a civil

153 Idem.1322.
servant, favoritism and other activities that increase a bureaucrat’s income illegally.\textsuperscript{155} It is shown in studies, for instance Brennan and Buchanan(1985) and Kimenyi (1987), that civil servants commonly try to maximize their income via their role and influence in the political system. Bureaucratic compensation comprehends the already paid salary by the state plus any other sources of income obtained from outside market activities.\textsuperscript{156} In addition, civil servants and other officials who are in the position to gain more income via external sources outside the market than via their regular employment, could or may give more attention to the demands and needs of groups (for example interest groups, or drug cartels) than to efficiently obey public policies and to enforce state regulations. In other words civil servant or other state officials are likely to embrace rent-seeking as long as they prefer more over less. The character of a society and the accompanied institutions within a government and within the state as a whole play a significant role in the behavior of civil servants or other state officials in a way that they will embrace rent-seeking to earn an additional income either legally or illegally.\textsuperscript{157} For that reason we should now address the functioning or dysfunctioning of institutions in an economy and a society.

### 2.5 The state, Institutions and the informal institutional order and corruption

A key facilitator to rent-seeking are the formal and informal institutions in a state, since the nature of institutions plays an important role in the existence and functioning of a state and their related markets. This role is a complex one, as institutional orders determine their viability of rent-seeking activities.\textsuperscript{158} Weak public sector institutions are one reason why rent-seeking is widespread, and one indicator of a poorly functioning state is the occurrence of corruption.\textsuperscript{159}

To understand the impact of the formal and informal institutional order, attention must be paid between ‘regular’ forms of rent-seeking in economic markets and ‘special’ forms of rent-seeking such as corruption, bribery and black markets which occurs outside the market. To makes sure, all forms of rent-seeking are harmful for development and stability in a state

\textsuperscript{155} John Mukum Mbaku, ‘Corruption and Rent-Seeking’ in: S.Borner and M. Paldam and others, The political dimension of economic growth (London 1998) 193-211. There 197
\textsuperscript{156} Idem 194.
\textsuperscript{157} Idem 194.
\textsuperscript{158} Pius V. Fischer, Rent-seeking, Institutions and Reforms in Africa: Theory And Empirical Evidence for Tanzania (New York 2006) 4.
\textsuperscript{159} Susan Rose-Ackerman, ‘Corruption and the Global Economy’ in :Corruption And Integrity Improvement Initiatives In Developing Countries. United Nations Development Program 25-43. There 31 Retrieved on 19/04/12.

http://mirror.undp.org/magnet/docs/efa/corruption/Chapter02.pdf

International Relations and International Organization

University of Groningen
as wealth is abducted towards one’s own purpose. However, some forms of rent-seeking should be seen as more damageable. Likewise, as previously mentioned, in clandestine markets the social waste caused by externalities -violence and coercion- is bigger than the dissipated rents.

Norwegian researchers Halvor Mehlum, Karl Moene, and Ragnar Torvik made a distinction “between cases where rent-seeking and production are competing activities, and cases where they are complimentary activities” in their article ‘Cursed by resources or institutions’. Related to that, they stated that rent-seeking and production are competing activities when most effective rent-seeking activities occur outside the productive part of the economy but take place via bureaucrats, civil servants, warlords etc. In addition, rent-seeking behavior outside the productive economy pays off when institutions are immoral: “Dysfunctional democracies invite political rent appropriation; low transparency invites bureaucratic corruption; weak protection of property rights invite shady dealings, unfair takeovers, and expropriation; weak protection of citizens’ rights invite fraud and venal practices; weak rule of law invites crime, extortions, and mafia activities; a weak state invites warlordism”. All these forms of rent-seeking behavior are made possible by not properly functioning institutions and create a disadvantage to be a producer in the competition for natural rents. Therefore production and rent-seeking are competing activities when institutions do not work morally. Thus the more immoral institutions are, the more likely rent-seeking behavior occurs outside the realm of the productive economy.

Similarly, properly working institutions, low corruption levels in government, high bureaucratic quality and certainty suggest that effective rent-seeking must be for a legitimate cause. Therefore, rent-seeking and production are harmonizing activities when institutions are working properly. In addition when institutions work as they ought to, rent-seeking behavior occurs inside the markets which still should be seen as a welfare loss to society as we already concluded in previous sections.

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161 Idem 6.
162 Idem 6.
163 Idem 6 -7.
164 Idem 7.
165 Idem 7.
2.6 Operationalization

The purpose of this chapter was to answer the questions: ‘what is rent-seeking and how can we use it as an analytical tool to address Mexico’s ongoing battle against drug trafficking?’ The first part of this chapter sought answer to the first part of the above stated question by explaining the phenomenon of rent-seeking, its various forms and consequences. The second part of this sub question: ‘How to use rent-seeking as an analytical tool to address Mexico’s ongoing battle against drug trafficking’ should be answered now.

The operationalization of rent-seeking for this thesis is divided in two parts. Namely, rent-seeking within the market and within the illegal drug markets (‘legal’ rent-seeking) - and rent-seeking outside the working force of the market seen in corruption and dysfunctioning institutions (‘illegal’ rent-seeking). Both forms of rent-seeking reveal welfare losses whereby there are some winners who benefit extremely from the rent-seeking opportunities at the expense of the society seen in negative externalities and in legal markets higher prices. Therefore following Public Choice theories - and Mancur Olson’s logic of collective action-, collective interest versus individual or group interest will be determined - in order to evaluate the net-outcome of rent-seeking: the abduction of wealth instead of producing products or services. Focus will lie on why some can embrace rent-seeking and thereby fulfilling their interests at the expense of public interest. Therefore distinction will be made between collective interest and individual interest. As seen in this chapter, rent-seeking opportunities are likely to occur when state interventions in the market are made in the form or regulations, prohibition, quotas, etcetera. Likewise, corruption and poorly functioning institutions are a facilitator of rent-seeking. In both forms of rent-seeking ‘rent’ are being sought and dissipated at the expense of the society. Therefore this thesis will elaborate upon both rent-seeking generators.

By identifying general rent-seeking behavior and corruption in Mexico and in particular in Mexico’s drug market, the first pillar, rent-seeking in the market will address the following criteria: the PRI inheritance seen in corruption and monopoly practices within the market, competition law, and privatization. These criteria help us identify to what extent general rent-seeking opportunities can be found in Mexico during the period 1980 until 2012. Namely, by focusing on the functioning of privatization and competition law we can identify to what extent state interventions have led to a creation of rents and thus generated rent-seeking in the market. Moreover, focusing on self-enrichment and corruption as seen in Mexico’s political system under the PRI, as described in chapter one, could give us an impression to what extent rent-seeking and corruption - as another form of rent-seeking -
under the tutelage of Mexico has taken place.

Subsequently, to identify rent-seeking behavior in the illegal drug markets the following criteria will be addressed: the market structure of the illicit markets, market participants in the illicit markets, the role of the government in policing drugs and interventions in the illegal drug markets – by means of prohibition and law enforcement –, and estimates of drug quantities and prices. Moreover, violence and corruption as negative externalities will be investigated to identify to what extent public enforcement is converted into private enforcement as a consequence of the prohibitions and the generated rent-seeking behavior. By addressing these negative externalities we could evaluate the net-outcome of rent-seeking for the Mexican society. Altogether, testing the aforementioned criteria will reveal to what extent we can identify rent-seeking behavior in the illegal drug markets between 1990 and 2012 in Mexico. Namely by addressing these criteria we could determine the interplay of rent-seeking opportunities and rent-seeking behavior in a way that market price setting mechanisms and market competition are distorted by state interventions as a consequence of prohibition efforts and anti-drug policies.

The second pillar, rent-seeking outside the market will be analyzed by the following criteria: corruption appearances within Mexico’s informal and formal institutional order, drug related corruption scandals, and the reproduction of corruption perception indexes for Mexico in general and specifically of political parties, the police, public officials, the judiciary, and the military in Mexico. The outcomes of this analysis will help to determine to what extent rent-seeking in the form of corruption in general and specifically related to drug trafficking is occurring in Mexico.

Altogether, the theory of rent seeking used as a comprehensive analytical tool with aforementioned criteria, will be used to give an explanation based on economic and corruption grounds why drug trafficking, despite anti-efforts from Mexico and the U.S., still is booming in Mexico.
2.7 Conclusion
This chapter dealt with rent-seeking as a general concept. Rent-seeking belongs to the Public Choice family which integrates the academic work fields of economics and politics whereby political processes and interplays between markets and states can be analyzed. Therefore, rent-seeking can and should be used as an analytical tool in the work field of IPE in order to overcome some limitations offered by the main IPE paradigms relating to the international illicit political economy.

In short rent-seeking should be understood in a very broad manner; varying from lobbying, obtaining monopoly positions, tax evasion, corruption, and illegal markets. The concept of rent-seeking describes the use of resources to capture wealth transfers instead of producing a good or service. Rent-seeking opportunities are likely to occur when state interventions in the market are made in the form or regulations, prohibition, quotas, etcetera. These market interventions limit competition and can generate scarcity which leads to the creation of rents. The created rents function as an incentive for individuals to embrace rent-seeking instead of producing a good or a service. Rent-seeking behavior generates welfare losses and negative externalities for the society as a whole and should therefore be seen as a negative occurrence for development, stability, and prosperity within a country. Rent-seeking behavior can be found in legal markets as well as in illegal markets. The logic behind rent-seeking and their outcomes works in a similar way. However, losses for the society as a whole are greater in illegal markets because of the occurrence of crime, violence and the costs of enforcement regulations.

Related to rent-seeking, one needs to look at both corruption and poorly functioning institutions. Corruption needs to be seen as another form of rent-seeking, which also tries to discharge the invisible hands within markets and tries to influence policies towards one’s benefit. Moreover, corruption operates as a facilitator to rent-seeking, because it can generate additional rent-seeking. Namely, bureaucratic corruption contains the gaining of more income via external sources outside the market. If a state official or civil servant prefers more income over less, it could give more attention to the demands or needs of groups in trade of a bribery, instead of obeying public policies and enforcing state regulations. This behavior of state officials and other civil servant to earn an additional income illegally is related to the informal a formal institutional order within a state and society. In addition, while state interventions play a crucial role in rent-seeking opportunities, so do the formal and informal institutional orders in a state. The more immoral or dysfunctional institutions are, the more rent-seeking opportunities and corruption are paying off outside the productive part of an economy.
therefore could rent-seeking be seen as rational behavior which yield higher net benefits than producing a good or a service.

Not astonishingly, this chapter also elaborated upon how to use rent-seeking as an analytical tool. This analytical tool will be used right away. But first, I address the central problem in this thesis once again: namely the interplay between rent-seeking in drug business and policing drug business in Mexico. This rent-seeking occurrence in Mexico needs to be seen as a double sided sword: on one side we should address rent-seeking behavior within the illegal market, but inherent to that we should also address rent-seeking behavior outside the illegal market (such as narco-corruption) which again feeds rent-seeking opportunities within the illicit market. By putting this double sided sword in a broader perspective, this occurrence touches upon the core of IPE and IIPE as it reveals the relationship between the markets, illegal markets, the state and the society as we are about to see in the subsequent chapter.
3 Mexico: 1990-2012 Rent-seeking within and outside the working force of the drug markets

3.1 Introduction
This chapter seeks to give an answer to the question: *‘To what extent can we identify general rent-seeking opportunities and corruption in Mexico and in particular those related to drug trafficking in Mexico between 1990 and 2000?’* By answering this question, the untrustworthy relationship between drug business and business of policing drugs in Mexico during the 1990s until 2012 will be significant. I will show that this relationship between markets and corruptive state officials are highly related to each other. The analytical tool that I will use to address this deceitful relationship is the theory on rent-seeking.

In essence, this chapter will give an explanation on economic and corruption grounds why drug trafficking, despite anti-efforts from the Mexican state and the U.S., still is booming. This explanation will be given by focusing on two pillars: rent-seeking within the market and rent-seeking outside the market. Rent seeking within the market will be addressed by focusing on aspects in the illicit drug markets that make it prone to rent-seeking. Therefore, the structure of the first pillar of rent-seeking will be as follow. First general rent-seeking behavior in Mexico will be addressed by an overview of the PRI inheritance related to corruption and drug trafficking. Subsequently, attention will be paid towards the liberal reforms in Mexico concerning competition law and privatizations, since this will give an impression about general rent-seeking behavior and rent-seeking opportunities within Mexico. In addition, drug traffickers thereby should be seen as an additional player to embrace rent-seeking. Therefore, subsequently rent-seeking within the illicit drug markets will be addressed by elaborating upon the market participants, the characteristics of the illicit Mexican-U.S. markets, and the interventions of the Mexican government within the illicit drug markets. Related to that, attention will be paid to the outcomes of those enforcement restrictions. Namely, more corruption, more violence and despite the anti-efforts a growing trade in drugs. The aforementioned will be addressed as negative externalities and therefore attention will be paid to public interest versus individual interest. To conclude this first pillar of rent-seeking addressed in this thesis, an idea of the net outcome of rent-seeking within the drug markets will be given.

The second pillar, corruption as a form of rent-seeking outside the direct working of the illegal drug markets will be analyzed by firstly showing the magnitude of narco-corruption in Mexico. Secondly, attention will be paid to anti-corruption efforts and their effects under
several Mexican administrations. In addition, corruption indexes will be shown in order to indicate the perception of corruption over the years in Mexico.

Noteworthy to the above-mentioned two forms of rent-seeking is that these are highly related to each other and for that reason there is no evident distinction between those two forms of rent-seeking in the Mexican drug markets. To make sure, these two forms of rent-seeking are highly intertwined. This should not be seen as a weak aspect of the rent-seeking framework, to the contrary, the overlapping and interacting relationship between these two forms of rent-seeking makes rent-seeking activities within the illicit drug markets in Mexico and the net outcome of rent-seeking very plausible. Notwithstanding, an exact amount of drugs production and trafficking, and the exact profit figures that the narco-business generates is highly occult. Therefore, measuring the exact welfare losses and profits will not be the locus for this thesis.

That said, focus will lie on the rent-seeking opportunities caused by immoral institutions -which cleared the way for corruption - and caused by the prohibition of drugs and enforcement, which created the lucrative illicit markets. In a similar vein, I will show that rent-seeking applied to drug business is a double sided sword: on one side we should address rent-seeking behavior within the illegal market which stimulates rent-seeking behavior outside the illegal markets in the forms of corruption, but inherent to that we should also focus on rent-seeking behavior (corruption) outside the illegal market what again feeds rent-seeking opportunities within the illicit market. This symbiotic relationship is difficult to be proved with hard evidence due to its occult character, but can be made plausible. Moreover, because of the illegal markets and their related officious sources and estimates, this research is not an easy one to conduct. There is no real hard evidence in terms of numbers of corruption and figures of drug production and profits. Nonetheless the importance of the ‘net’ outcome of rent-seeking gives understanding to what extent rent-seeking is dampening social, political, and economic development in Mexico. Therefore, after this chapter we could ask ourselves the question: ‘Does the chosen political path suit the desirable outcome to stop drug trafficking in Mexico?’ The answer seems rather simple: ‘No it does not’. Despite anti-drug efforts, drug business is fed by rent-seeking activities such as narco-corruption which again leads to a continuation of drug-trafficking (rent-seeking within the markets) and vice versa. Nonetheless, the knowledge to answer this question is of great importance, or actually indispensable due to a couple of reasons. In the first place, it gives us understanding where the chosen political path is missing her goal. Secondly, it gives an impression why drug
trafficking is still ongoing. Thirdly, it should give alternatives how to backlash the underlying problems which are inherently related to the obstacles why drug trafficking is still booming. Fourthly, by answering this rhetoric question, we gather information and knowledge about the main structural facets within the Mexican society which leads to a continuation of drug problems. Finally, by answering this question using the framework of rent-seeking, the incentives caused by drug prohibitions, anti-efforts and the working of corruption are revealed.

3.2 Inheritance and circumstances in Mexico

3.2.1 The PRI inheritance
The PRI served as Mexico’s dominant political organization from 1929 until the early 1990s. The PRI, who ruled for seven decades, had created a typical political culture and practice of policies. These practices and the political culture resemble a denial of internal democracy, corruption, pragmatism, patronage, and corporatism which was spilled over to other political parties. Therefore, the PRI has been commonly called a coalition of networks of aiming politicians looking for not only positions of power and prestige, but who also sought opportunities for private enrichment. Likewise, at all levels of the Mexican political system, opportunities for self-enrichment were found. At the highest level of the political system the most important drive for corruption has been the manipulations of public-sector enterprises and the landholdings. In the lower levels of the governmental structure and the political systems, self-enrichment opportunities were sought and obtained through methods of corruption such as bribery, charging the public for legally free public services, complete theft of public money, arranging members of unions for positions, and favoritism. These corruption practices in Mexico should be seen as an important function within the weak institutional order, since a weak institution, lacking in transparency, has effective mechanisms for deterring good governance and rule of law. In addition, the PRI did not offer transparency and mechanisms of accountability. To the contrary, the PRI bolstered their

167 Adolfo Sánchez Vázquez, Ética y Política (Mexico City 2007) 21-22.
legitimacy and control by using corruption.\textsuperscript{170} The PRI’s authority in the economy and policy in the 20\textsuperscript{th} century presented it with abundant corruption opportunities since the beginning of the PRI.

In other words, it can be stated that the PRI institutionalized corruption.\textsuperscript{171} Nowadays, there is evidence that corruption in Mexico still is triumphing. Later on in this chapter this will be shown by data from the International and Mexican Organization: Transparency. The PRI inheritance consists of numerous rigid and fraudulent areas of rules within state-led enterprises, labor unions, and law enforcement.\textsuperscript{172}

In today’s Mexico, corruption in narco-business plays a crucial role in drug trafficking and related to that, the policing of drug trafficking. The situation in Mexico related to drug corruption is very severe; in many cities in Mexico drug traffickers have become the law of the land because of their ability to corrupt and threaten public officials. Mexican people view the police with cynicism and fear and are frighten that security forces have a core group of members who are associated with drug trafficking organizations. However, drug trafficking did not made the institutional order weak in a way of wide spread corruption, abusive and ineffective police forces, and a weak judicial system; this was already the case in Mexico. Nevertheless, drug trafficking does aggravate and enlarge these problems.\textsuperscript{173}

This corruption related to drug trafficking should be seen as a negative externality of the illicit market. These externalities occur in bribing and intimidation of law enforcement. Essential to organized drug trafficking related to corruption is that one needs the other in order to survive. In that sense, drug business in Mexico had deepened the already existing corruption in Mexico.\textsuperscript{174} In addition, drug trafficking in relation to the Mexican state should be seen as another part of the inheritance of the PRI. During the ruling time of the PRI a mutual relationship developed between the state and the drug cartels. This mutual relationship between the state and drug traffickers is apparent in discrete protection, in giving information, warnings and nepotisms.\textsuperscript{175} As discussed in chapter 1, for members of the PRI, drug business was just an additional profitable business. Moreover, the involvement of the PRI was seen


\textsuperscript{171} Andre Castillo, ‘Terror and Corruption in Mexico –part one’ \textit{Center for a just society} (21/01/2010/). Retrieved 02/04/2012.


\textsuperscript{174} Idem 12.

\textsuperscript{175} Idem 121
amongst others in political drug related scandals. In addition, under the PRI an agreements system between drug traffickers and Mexican officials appeared under the name ‘la plaza’ whereby drug traffickers could bribe state officials in order to keep up with drug trafficking. Altogether, drug trafficking in Mexico has sought new opportunities within the corrupt Mexican political system in exchange for a portion of the generated drug profits. Furthermore, the PRI expanded its legitimacy through voting support from interest groups, including drug traffickers.\textsuperscript{176} This strengthened PRI dominance in elections while encouraging ‘state sponsored racket’, which Richard Snyder and Angélica Durán-Martinez define as “informal institutions through which public officials refrain from enforcing the law or, alternatively, enforce it selectively against the rivals of a crime organization, in exchange for a share of the profits generated by the organization.”\textsuperscript{177} Thus, the Mexican government under the PRI did stimulate and participated in corruption which made rent-seeking outside the working force of markets possible to occur. Moreover, - as I will show in the following sections - this have led to a spillover of rent-seeking behavior within the markets.

3.2.2 Competition law
Another important feature of PRI legacy can be found in property rights and state contracts before Mexico’s liberal reform program. In Mexico property rights rather were in government hands than in the hands of the private sector, which had led to a re-distribution of already existing resources instead of producing new resources, or differently stated, rent-seeking within the market. To give an impression: in the 1980s more than 33 percent of the economy was in the hands of privileged elites in government monopolies.\textsuperscript{178} As mentioned in chapter 2, immoral or dysfunctioning institutions and monopoly positions, likewise property rights and other granted contracts can racket rent-seeking opportunities and thus rent-seeking behavior. For Mexico, as the authors Paul Craig Roberts and Karen Lafollette Araujo stated: “Mexico had vast resources, an enterprising population, and plenty of outside money to finance development. Yet, the country did not progress. Instead of building a private, profit-seeking economy that provide a tax base, Mexico created a subsidy-dependent system of rent-seeking”.\textsuperscript{179} Between 1990-2000, Mexico was ruled under two PRI presidents: Carlos Salinas


\textsuperscript{179} Idem 53.
de Gotari (1988-1994) and Ernesto Zedillo (1994-2000). As stated above, corruption soared and was dictated to occur. Moreover, as stated in chapter 1, Mexico said goodbye to the ISI-economic model which slowly paved the way towards a market based economy. These liberal reforms in Mexico were implemented rather late compared with other countries. As often, the transition of a country towards liberal policies are roaring times and often do not lead to the hoped results. In Mexico, just as the narco-dollars had blossomed corruption in Mexico, so have the liberal policies stimulated corruption and rent-seeking again to bolster corruption under the Mexican administrations lead by Carlos Salinas de Gotari and Ernesto Zedillo.

Under the ruling of president Salinas a program of privatizations and economic liberalization policies was introduced to undergird market-orientated reform. As a consequence, privatizations opened-up opportunities to obtain financial wealth for high ranking officials within the country. Moreover, in Mexico drug trafficking organizations should be seen as an additional actor in seeking the opened-up opportunities to obtain financial health. Therefore, in the subsequent section main focus will lie on competition law and privatizations within Mexico. Subsequently current competition law will be shortly addressed.

Competition policy in Mexico was introduced during Mexico’s implementation of liberal policies in the mid-1980s as was explained in chapter 1.1. At the background of this, competition policies laid the incentive to end protection of domestic activity and to stop governmental control in order develop a market based economy. A main ingredient in Mexico’s economic reform, which aimed at opening up the market, was the implementation of the Federal Law of Economic Competition (LFCE) in 1993, and the accompanied establishment of the executive structure organ the Federal Competition Commission (CFC) to enforce it. The former was approved in December 1992 by the Mexican government and was called ‘La Ley Federal de Competencia Económica’ which came into force in June 1993. This new competition law replaced ‘La ley Orgánica de Monopolios’ dated from 1934, and was enforced by the aforementioned CFC.

The competition law and CFC to enforce it did not serve competition in Mexico as it

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181 ‘el Diario Oficial de la Federación, el 24 de diciembre de 1992’
ought to. Critiques on the competition efforts are mainly on the systemic errors in the implementation of the competition program. Namely, the competition implementation has increased the concentration of wealth for a few within Mexico.\textsuperscript{184} Even though, at firsts instance competition law on paper seems very promising, a second look reveals the opposite. The Mexican competition law finds its constitutional base in article 28 and article 117 of the Mexican Constitution. Shortly, article 117 prohibits local barriers to trade and article 28 prohibits monopolies and monopolistic practices.\textsuperscript{185} Article 2 of the LFCE states the main goal of the competition law in Mexico and aims to protect the process of free competition by preventing and eliminating monopolies, monopolistic practices and other restrictions to the efficient functioning of markets for goods and services.\textsuperscript{186} Article 1 and 3 of the LFCE reveal the scope of this competition law. Article 1 states that this law regulates Article 28 of the Constitution on antitrust, monopolies and free competition, and that it is generally observed throughout the Republic and applicable to all areas of economic activity.\textsuperscript{187} Article 3 reveals the law subject under this law. In short, this law is applicable to all areas of economic activity and all economic agents, both public and private.\textsuperscript{188} To the contrary, mentioned in article 28 para (4) and para (7) of the Mexican Constitution there are exceptions on this law: the Mexican state exercise functions exclusively in strategic areas of trade unions, patents, trademarks, and exporting cooperatives.\textsuperscript{189} The aforementioned exceptions as provided in Mexico’s constitution have maintained competition practices in Mexico within many Mexican sectors and therefore the Mexican competition law did not ensure efficiency gains of many state-owned companies – which as I am about to show – but lead to a continuation of high commissions and monopoly rents for a few.\textsuperscript{190} In addition, as I will discuss later on, even after privatizations of state owned companies the monopoly practices of those companies maintained to exist. Moreover, the CFE in charge of backlashing monopoly practices which were not subjected under the aforementioned exceptions within Mexico’s competition law was seen as very ineffective. The CFE could not properly punish and enforce punishment


\textsuperscript{185} Artículo 28, Artículo 117 \textit{Constitución Política de los Estados Unidos Mexicanos}

\textsuperscript{186} Artículo 2, LFCE, junio 1993.

``Esta Ley tiene por objeto proteger el proceso de competencia y libre concurrencia, mediante la prevención y eliminación de monopolios, prácticas monopólicas y demás restricciones al funcionamiento eficiente de los mercados de bienes y servicios.``

\textsuperscript{187} Artículo 1 LFCE, junio 1993.

\textsuperscript{188} Artículo 3, LFCE junio 1993.

\textsuperscript{189} Artículo 28 para 4 and para 7 \textit{Constitución Política de los Estados Unidos Mexicanos}

\textsuperscript{190} Santiago levy and Michael Walton ed., \textit{No growth without equity? Inequality, Investment, and Competition in Mexico} World bank 2009. 9-11.
against monopoly practices. The problem behind this was Mexico’s failing judicial system. Judicial processes related to competition law had obstructed fines escalating around 90 percent of the total fines which have not been received by the CFE. Therefore, CFC to eliminate monopolistic practices was a mechanism without power and showed Mexico’s shortcoming competition law and the rule of law.

Altogether, the practice of Mexico’s competition law and the accompanied commission did not promise what they preached. Moreover, the second reading of Mexico’s competition law and her exceptions and the lacking of enforcement did not serve anti-monopoly practices but helped sustain monopoly practices under the tutelage of the Mexican state. Nowadays, governmental and private monopolies still make up for a large part of the Mexican economy.

3.2.3 Privatizations

Another ingredient to backlash state control in Mexico was privatization. Mexican government counselors in cooperation with foreign advisors embarked upon a major privatization package. Main focus was placed on the speed of the privatizations instead on transparency of the privatization package. The Mexican privatization package, in terms of seize and the number of privatized companies is considered as one of the largest privatizations programs in the world. Between 1982 and 2003 state owned companies fell from 1155 to 210 companies. The privatization program kicked off as a restructuring program in order to increase effectiveness of the public sector. The program reached its climax under president Salinas. Companies sold under the Salinas administration account for 96 percent of all denationalized assets. Under the Salinas administration a division within the Ministry of Finance was created. This unit, called the Office of Privatization of State-Owned Enterprises coordinated decentralized process while encouraging the immersion of commercial banks, foreign businesses and foreign capital. Subsequently, the period under Ernesto Zedillo (1994-2000) was pigeon-holed by the consolidation of prior privatization.

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Under Zedillo denationalization took place in telecommunications, harbors, airports, toll roads, pension system railways and the distribution of natural gas.\(^{195}\)

In reality, the aforementioned privatizations did not have the results they ought to have. The privatization package was not right for Mexico’s political and economic situation. Insufficient precautions and no transparency mechanism were implemented by the privatizations. In addition, almost no attention was paid to the sources of capital that were used to buy state assets. Moreover, state assets were not properly valued by income and worth. As a consequence, economic disparity occurred whereby many of Mexico’s wealthiest families and persons with drugs money ended up as billionaires who controlled major sectors of the Mexican economy that used to be state-owned business.\(^{196}\)

These families, or differently stated interest groups had acquired influence derived from the privatization within the Mexican economy and this rent-seeking behavior have hampered economic growth and resource allocation. To illustrate, Mexican billionaires and families are appearing in and out the list of Forbes Magazine’s listing of the wealth of billionaires. In total 30 Mexican families or individuals have appeared on these lists for two years around 1994. The majority of these families or individuals had benefited from the privatization package of the early 1990’s.\(^{197}\) These billionaires and rich families gained their wealth via privileged access to markets and political connections and not by competitive efforts or innovation.\(^{198}\) The ratio of total net worth of billionaires to Gross Domestic Product (GDP) has changed significantly. Astonishing growth in this ratio could be witnessed during the kick-off of Mexico’s privatization program under Salinas. To illustrate, between 1989 and 1994 the ratio of net worth of Mexican billionaires to GDP rose from around 1 percent of GDP in 1990, to around 11 percent in 1994. During 1995 until 2008 the net percentage of the ratio fluctuated around 6 percent with highest percentage of around 11 percent in 2008 with the lowest ratio to GDP in 2003 with around 4 percent.\(^{199}\) The monopolist Carlos Slim, owner of the company Telmex (the dominant telecommunications company in Mexico), is a good example of one of the super-rich who gained great wealth during the Salinas administration.

\(^{195}\) Idem 10.
\(^{198}\) Odracir Barquera, ed., Democratic governance in Mexico: Beyond state capture and social polarization’ World Bank- Mexico 2007. 50.
To give an impression, in 2012 Carlos Slim ranks number one in the world’s richest people of Forbes with an estimated wealth of 69 billion US$. Moreover, nowadays ten more Mexican individuals or families are ranked on the Forbes world richest people list with their business in various sectors such as banking, media, retail, and mining - all sectors which were subjected to privatization. Amongst the super-rich Mexicans is also ‘El Chapo’ or Joaquin Guzman Loera with his 1 billion US$ derived from drug trafficking.200

Another major illustrator of Mexico’s extracting wrong privatization program could be seen in the privatization of Mexico’s banking system in the 1990s. Many of Mexican state banks were bought by deceitful persons who lacked the financial knowhow and background. Furthermore, Mexico lacked a regulatory system that might have set rules considering bad loans and money laundering, resulting in a disaster that cost the Mexican government 12 million dollar.201 When the NAFTA came into force in 1994, privatization showed flaws in a way of political unrest, peso-devaluations, violence, and more and more accusations and appearing of corruption. Probably a textbook example of the latter is the arrest of Raúl Salinas de Gortari, brother of former president Carlos Salinas de Gortari, on charges of money laundering, bands with drug trafficking organizations, and conspiracy to murder on his brother and financial partner Enrique Salinas de Gortari. After that, it became clear that Raúl Salinas de Gortari had connections with many Mexican bankers who collected their position and wealth under the privatization of the Mexican banking system.202 Moreover, a Swiss police investigation stated that Raúl Salinas was a key player in Mexico’s cocaine trade by protecting the drug traffic in trade for huge bribes.203 In addition the International Narcotics Control Strategic Report of 1995 stated that in Mexico “Drug traffickers have been buying bank stocks and seeking election to bank boards, after which they opened numerous accounts through which they funnel drug money, often into real estate or other assets in Mexico”.204 Moreover, after the scandal of Rául Salinas, it became clear that state officials and civil servants of all levels of Mexico law enforcement apparatus were involved in illicit drug markets within the whole country.205

202 Idem 540.
To conclude, the aforementioned attempts of liberal reform seen in privatization and competition law did not work out as they should had, due amongst others to the lacking of regulatory frameworks that could have ensured more competition within the privatization package. In many cases, privatization had led to replacing public monopolies with private ones, thus resulting in simple change of ownership. Today, the Mexican state and private companies regulate a very wide range of non-trade goods throughout the whole economy, primarily - despite of earlier privatizations - in energy, transport, telecommunications, financial services, and labor.\textsuperscript{206} This characteristic of Mexico’s economy has limited competitiveness in Mexico’s key economic sector and specifically in the presence of private and public monopolies.

In combination with the PRI legacy seen in bribery, impunity, injustice and corruption within Mexico’s society and the liberal reforms Mexico had undergone, wealth and political power still is concentrated around a few.\textsuperscript{207} In addition, the liberal reforms have unexpectedly allowed for the ‘privatization’ of crime – as we will see in more detail in subsequent sections - seen in the expansion of drug trafficking and corruption throughout the market and within the state. Therefore, we could state that the PRI stimulated rent-seeking by corruption and by the incorrect implementation of liberal programs. Hence, Mexico has a history where corruption and rent-seeking are just ordinary aspects from a social, economic and political point of view. Consequently, rent-seeking can be seen as a top-down approach - from the state towards citizens - in her occurrence.\textsuperscript{208}

### 3.2.4 General rent-seeking in Mexico today

The previous section described how rent-seeking practices could take place via the intricate Mexican political system, which has led to social and economic instability. To make sure, these conditions within the Mexican political structure have not varied substantially from 1994 to 2006. The end of the PRI and the beginning of a new democratic era under Vincente Fox did not stop the entrusted interests of groups what was favored by the older rent-seeking arrangements. Nowadays these arrangements are still strongly entwined within Mexico’s political culture. Moreover, despite the presidency losses, the PRI still is in control of the substructure of the federal bureaucracy and still controls around fifty percent of the state...

\textsuperscript{206} Santiago Levy and Michael Walton ed., \textit{No growth without equity? Inequality, Investment, and Competition in Mexico} World bank 2009. 5.


government and thus controlling certain state assets in numerous federal states within Mexico. In addition, a World Bank study called: ‘No growth without equity?’ argues that, while efforts were made to introduce competition in Mexico, certain interest groups, specifically in the labor and business sector, have frustrated the competition attempts by preserving certain privileges gained under the ISI model and under the ruling of the PRI. Nowadays in 2012, the Mexican state and private companies - such as Telmex under Carlos Slim and others - regulate a very wide range of non-trade goods throughout the whole economy. Therefore, Mexico’s current economy is versed by the privatizations in Mexico under the administrations of Zedillo and Salinas. Moreover, Mexico’s competition law did not work as it ought to. In reality, monopoly practices still maintained.

In September 2011 under the administration of Mexican president Calderón, new reforms have been made within Mexico’s competition law and more power has been given to the CFC. This law reform is set up to attack the economic monopolies up to prison, because nowadays it still obstructs productive activity in Mexico. In short, these reforms ought to generate more competition within Mexico, which eventually will lead to lower prices for the Mexican Consumers. The reforms are too new to yet evaluate the outcomes. Moreover, due to the upcoming presidential elections in June 2012 in Mexico, many state documents are not available in order to keep the competition fair between the rivaling president candidates.

To conclude, the circumstances for rent-seeking to take place are still present in the Mexican society. As we have seen, rent-seeking could occur because of the not properly working privatization package and competition law. Moreover, Mexico’s political system under the PRI could be seen as a rent-seeking system where opportunities for self-enrichment are endemic and corruption was dictated to occur. To be sure, these practices did shape the current Mexican social, political and economic life. These problematic conditions have also generated rent-seeking activities within the Mexico’s narco-industry. In the seeking of rents, we should consider participants in the illicit drugs industry as additional players to fulfill rent-seeking.

The notorious example of Rául Salinas, the brother of former president Carlos Salinas,
and his connection to drug trafficking and money laundering, does not make us doubt about the active role of Mexico’s state officials and corruption related to drugs. Therefore, because of the shown rent-seeking opportunities and the spill-over towards rent-seeking related to drugs, and Mexico’s intensification of the drug industry, we should now deeply examine the untrustworthy relation between drug trafficking and policing in drugs in Mexico. In order to do so, in the subsequent sections of this chapter rent-seeking within and outside the market will be addressed. Starting with rent-seeking within the illegal drug markets, which will focus on the market structures, the market participants, the role of the Mexican government, policies contra drug trafficking, and the incentives seen in profits to engage with drug trafficking. By doing so, the net outcome of rent-seeking within the illicit markets will be approximated.

3.3 Rent-seeking within the illegal drug markets 1990-2012. Disequilibria of the illicit markets 1990-2012

In this section, I will address rent-seeking behavior within the illegal drugs markets. In Mexico, production and drug trafficking are illicit activities since it was prohibited in the 20th century. Therefore the activities within the drug markets, such as production and trafficking of drugs are considered illegal as well. In this section I will address rent-seeking by focusing on the market and the relation with the Mexican state. Therefore, the illicit drug markets will be addressed by elaborating upon the market participants, the characteristics of the illicit Mexican-U.S. markets, and state interventions within the illicit drug markets. Moreover, attention will be paid to public interest versus individual interest as rent-seeking leads to wealth transfers for only a small group at the expense of the society as a whole. Related to that, attention will be paid to the outcomes of those enforcement restrictions: corruption, violence and an ongoing drug trade in a Public Choice perspective.

Prohibitions on drug trafficking and production on both sides of the Mexican-U.S. border, have brought the drug markets in disequilibria. Mexico and the U.S. have long battled against drug trafficking which until today is still persistent. Their bilateral goal is to permanently fragment the drug markets and to dislocate drug supply and the accompanied drug routes. What actually happened is that Mexico and the U.S. are distorting the illegal drugs market. They did not succeed to backlash the supply and demand rhetoric. As a consequence, the drugs prices have risen above the natural market level and therefore monopoly rents occurred whereby drug cartels embraced rent-seeking by competing for

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monopolistic positions. In regulated markets this competition is considered legal. The competition within the Mexican drug markets on the contrary is illegal, since – besides the fact that drug trafficking and production is illegal - official governmental-enforced property rights and contract are absent. However, in order to obtain these positions, public enforcement to these property rights is replaced by private enforcement of the Mexican drug cartels and obtained through violence and corruption. This occurrence – as we will see – could be seen in a rise of violence and continuation of corruption in Mexico. Moreover, I will show that participation over time within the drug markets have increased, which leads us to expect – based on the rent-seeking framework and the profit paradox – that because of the risen market participation, drug prices have decreased since monopoly rents got smaller due to increasing competition for the share of profits. As we are about to see, this is exactly what happened in the clandestine drug markets. Interestingly, those prices did also increase again – as we are about to see – as the ‘war against drugs’ declared by Cálderon made the illicit drug markets more lucrative, because the anti-efforts made the conducting of drug business in Mexico more difficult and thus increased monopoly rents with participants willing to compete for those rents. Based on above stated, the questions necessary to be answered are: ‘Who are the market participants? Who are the winners and the losers? And what are the market characteristics of the illicit markets? What is the role of the Mexican government? What anti-polices are implemented? and When and why are the drugs prices decreasing and increasing?’ These questions will provide an answer to the extent to which rent-seeking in the drug markets occurs in order to approximate the net outcome of rent-seeking within the illicit markets.

3.3.1 Market structures

3.3.1.1 Market participants of the U.S.-Mexican drug markets, 1990-2012

As elaborated upon in chapter 1, Mexican drug cartels have existed for a long time. Moreover, they have become more controlling since the demise of the major Colombian cartels in the 1990s. The birth of Mexican drug cartels controlling the U.S.-Mexican border can be traced back to 1989 when Gallardo, a Colombian drug pin, ordered to divide his monopoly drug trafficking organization. Each cartel would control one smuggling route towards the U.S.. These cartels were the Tijuana Cartel, the Sinaloa-Sonora Cartel, the Juárez Cartel, and the Gulf Cartel.214

Around 2005, more cartels were active in drug trafficking throughout Mexico; the


International Relations and International Organization
University of Groningen
Colima Cartel, the el Chapo Cartel, and the Valdez Cartel.\textsuperscript{215} Likewise, the Mexican government acknowledged that seven cartels are actively operating throughout the country. Over time and through struggles these cartels spilt up, integrated or stood up. Therefore, numerous names and new cartels could be found. For example, BBC reported that these seven cartels are operating throughout Mexico: the Mexico Cartel, the Tijuana Cartel, the Juárez Cartel, the Colima Cartel, the Gulf Cartel, the Sinaloa Cartel, the Valencia Cartel, and the Oaxaca Cartel.\textsuperscript{216} Other sources state that eight cartels are operating in Mexico: the Beltrán Leyva Cartel, La Familia Cartel, the Gulf Cartel, the Juárez Cartel, the Knights Templar cartel, the Sinaloa Cartel, the Tijuana Cartel, and the Los Zetas Cartel. In addition, the Mexican government has reported that the drug trafficking organizations, the Juárez Cartel, the Gulf Cartel and the Sinaloa Cartel together are active in almost all Mexican states. The Juárez cartel is active in twenty-one Mexican states, the Gulf cartel operates throughout thirteen states and The Sinaloa drug trafficking organization is active in seventeen states.\textsuperscript{217} A research report for the U.S. Congress dated from 2007, states that these aforementioned largest cartels in the past years have bound together. The Gulf and The Tijuana Cartels have made a cooperation pact. In addition, numerous cartels have also agreed upon a pact, called ‘The Federation’. This alliance is led by major drug pins of the Valencia, Juárez and Sinaloa Cartels, while remaining autonomous drug trafficking organizations.\textsuperscript{218} That said, the purpose of this chapter is not to investigate exactly which cartels are in charge, but only tries to show that it is widely occurring and that participation of drug trafficking organizations have risen since the demise of the Colombian drug trafficking organizations. Moreover, drug cartels over the years have been fractionalized and decentralized. The result has been a much more chaotic and unpredictable pattern of drug trafficking. Just like in the 1990s, there were four major drug cartels active in Mexico, today there are at least seven.\textsuperscript{219} Therefore, we could state that participation within the illegal drug markets have increased. Hence, attention to the market characteristics of the illicit drug markets should be addressed in order to determine the competition between drug cartels within the illicit drug markets.

\textsuperscript{216} ‘Mexico in the Narcotics Era’ \textit{BBC radio world service, Retrieved 03/04/2012}. http://www.bbc.co.uk/worldservice/specials/1717_mexicodata/page15.shtml
\textsuperscript{218} Idem 1.
\textsuperscript{219} David A. Shirk, ‘The drug war in Mexico: confronting a shared threat’, \textit{council on foreign relations march 2011} 9.
3.3.1.2 Market characteristics of the U.S.-Mexican illegal drug markets

In the illicit drug markets the competition should be considered illegal because the markets are illegal by nature since the prohibition laws in the 20th century. Therefore, in the cocaine, heroin and marijuana markets officially government-enforcement property rights and contracts are lacking and are replaced by private enforcement within the illicit markets. As we will see later on in this chapter this private property enforcement in Mexico leads to violence and huge scale corruption by drug traffickers and bureaucrats in order to keep up with their illicit drug trafficking business.

The word “drug cartel” suggests that these drug trafficking organizations control production and prices and often divide their territories. The question now arises: ‘Can we define the Mexican ‘drug cartels’, as cartels in the economic significance?’ To make sure, it is not clear that Mexican cartels are setting the price. Prohibition efforts and the demand deriving from the U.S. play an integral role on prices in the drug market. In addition there are more cartels than just one that are competing for turf in order to do their illicit drug business. Therefore we should state that they do not control production but they are competing to control the drug production and trade. The element of dividing territories is also not a clear function acted by the Mexican drug cartels. As mentioned before, the cartels are combating for territorial space. This altogether makes the Mexican drug cartels not “cartels” in the pure economic significance of the word. Therefore, I argue that perfect oligopolies are better suited for the Mexican case because of several characteristics.

The economists Slowman and Sutcliffe define oligopolies as a type of imperfect market in which “a few firms between them share a large proportion of the industry”. Thereby, the distinction needs to be made between imperfect and perfect oligopolies. The latter refers to a situation where market participants produce and offer almost identical products. The former features to markets participants offering differentiated products. For the Mexican case, there are at least seven cartels competing for turf who share a huge proportion of the illicit US-Mexican drug market. In addition the narcotics, such as heroin, cocaine and marijuana should be seen as identical products. To the contrary, a remark thereby is that cocaine stems from Colombia and heroin and marijuana is produced within Mexico. In addition, the market share of each drug will be divided amongst the rivaling Mexican drug cartels. Still, one could state that the aforementioned drug cartels all are combating to obtain or maintain the best drug

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220 William Boyes and Michael Melvin, Microeconomics (Boston2008) 201.  
222 Andreas Wellmann, Oligopolies (Munich 2004) 1.
trafficking position within the illegal drug markets. Or differently stated, all oligopolies are competing for the created monopoly rents caused by prohibition on both sides of the U.S.-Mexican border.

To conclude, we could state that the clandestine U.S.-Mexican drug markets are characterized by imperfect competition - demand and supply is not in equilibrium because of its illicit prohibited character - whereby drug cartels are enforcing private property rights and contracts in order to obtain the created monopoly rents. As we are about to see, this private enforcement of property rights is accompanied by the occurrence of violence and corruption. Therefore we should now elaborate to what extent this market structure leads to rent-seeking and to what extent this leads to negative externalities (the net outcome of rent-seeking).

3.3.2 Role government: 1990-2012. Policing drugs and consequences

In this section the occurrence of rent-seeking will be addressed by focusing on the prohibitions and the enforcement efforts within the illegal drug markets. As the prohibition itself make prone to rent-seeking, so do the anti-drug efforts to enforce the prohibitions additionally. This occurrence of rent-seeking will reveal the untrustworthy relation between drug business and business of policing drugs. That is, the more government authorities become “law enforces” the higher the incentive to get involved in drug trafficking.223 In a similar vein, keeping the ports to narco-trade closed, (caused by prohibitions on both sides of the U.S.-Mexican border) rents of illegal drug trafficking will increase. Moreover, it rackets opportunities for new entrants and re-organizes the supply and distribution routes. Likewise corruption as a form rent-seeking reveals the untrustworthy relation. Namely, when the drug rents became higher and higher due the enlargement of Mexico’s involvement in the drug trade at the beginning of the 1990s until now, Mexican drug cartels had more resources to infiltrate and corrupt the Mexican law enforcement authorities and other state officials in order to keep up with their business.224

This rent seeking behavior of drug traffickers could be compared with firms and cartels. However, as mentioned before, it is not sure the operating drug cartels in Mexico are setting the prices. Normally, in clandestine markets government authorities are setting the price in a way that they disrupt the value of the drug industry by restricting supply. For the Mexican-U.S. drug markets the demand for drugs remains very high. Therefore, the more the government reduces the drug business, the greater incentives will be for rent-seekers and new

224 Idem 82.
entrants in the drug business in order to obtain monopoly rents.\textsuperscript{225} Where, as mentioned before, in the 1990s four cartels were active in Mexico, today at least seven are active. These cartels are competing for property rights and try to supply their own property rights protection which results – as we are about to see - in violence what on the other hand leads to negative externalities on the society as a whole. To backlash participation within illegal markets, more needs to be invested in military control. On the contrary this will lead to more additional resources invested by the drug traffickers in violence and corruption\textsuperscript{226} in order to emulate for the monopoly rents caused by the market interventions in the form of anti-enforcement. A clear example of this occurrence is Mexico’s law enforcement, which will now be discussed combined with anti-drug policies.

3.3.2.1 \textit{The last ten years of the Partido Revolucionario Institucional 1990-2000}

Former president Salinas created a national institute to better coordinate the battle against drug trafficking.\textsuperscript{227} Likewise in 1993, the criminal code was reformed. Resulting in an increase in length of sentences relating to drug trafficking. Under the Zedillo administration these anti-drug efforts were continued. In 1996, Zedillo enacted a law against organized crime. Moreover, in 1999 constitutional reforms were made to increase the efficacy to oppose crime.\textsuperscript{228} Already in 1988 drug trafficking in Mexico was declared by former Mexican president Miguel de la Madrid (1982-1988) as a national security threat. Consequently, between 1987 and 1989 Mexico expanded its federal anti-drug budget in three-fold. In 1990 Mexico extended its budget once more. Given Mexico’s economic situation at this time, which was loaded with cuttings in governments spending, the spending on anti-drug efforts was remarkable and was one of the few areas in which state intervention in the economy was growing.\textsuperscript{229} Under Carlos Salinas, drug trafficking as a national threat was augmented and the Mexican army had stayed involved against drug traffickers.\textsuperscript{230} Under the ruling years of Zedillo even more was called upon the military force, instead of the Mexican Federal Judicial Police which was loaded with corruption accuses.\textsuperscript{231} Therefore, during those years one can see

\textsuperscript{225} Idem 80.


\textsuperscript{227} Jorge Chabat, ‘Mexico’s War on Drugs: No Margin for Maneuver’, \textit{The ANNALS of the American Academy of Political and Social Science} vol. 582 no. 1 July (2002) 134-148. There 140.

\textsuperscript{228} Idem 141.


\textsuperscript{230} Luis Rubio, \textit{Mexico under Fox} (Colorado 2004) 300.

a clear rise in military budget spending in Mexico for anti-drug efforts (see table 1). Those spending became, as scholar Maria Celio Toro stated; “Mexican attorney general office has basically become an anti-drug law enforcement agency”. Moreover, during those years Mexico was not involved in an armed conflict with other states and generally Mexico condemns the interference of states within other nation states and rejects the use of force to settle disputes.

Table 1: Mexico’s military budget per financial year

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<tbody>
<tr>
<td>***</td>
<td>[2,232]</td>
<td>[2,839]</td>
<td>[3,733]</td>
<td>[4,828]</td>
<td>[6,190]</td>
<td>[7,251]</td>
<td>[9,750]</td>
<td>[10,996]</td>
<td>[15,685]</td>
<td>[18,958]</td>
<td>[22,666]</td>
<td>[27,803]</td>
</tr>
</tbody>
</table>

*** Military budget in Million Mexican Pesos


Accompanied by this rise in military spending, the number of arrest and eradication of the illicit drug crops and corruption under president Salinas and Zedillo rose too. Under the administrations of Salinas and Zedillo drug traffickers acquired unparalleled influence at all high levels of the national government as well at all levels of state-, federal- local- and regional offices. Concerning the eradication, report from the U.S. Department of state complimented Mexico with the improved anti-efforts with had served to seizure 40 ton of cocaine in 1993. Nevertheless, the real benefits, or better stated the incentives to dissipate monopoly rents of the drug trade did not shrink due the eradicated seizures. This can be explained by the risen competition and participation within the drug markets of Mexico, combined with the illicit drug demand stemming from the U.S., which rackets incentives to enter the illicit drug business each time government agencies intercept a huge amount of drugs. In addition, the efforts made in drug seizure and the military expansion resulted in a redistribution of corruption from the police to the military. As mentioned before, when the

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drug rents became higher and higher due the enlargement of Mexico’s involvement in the drug trade at the beginning of the 1990s until now, Mexican drug cartels had more resources to infiltrate and corrupt the Mexican law enforcement authorities and other state officials in order to keep up with their business.\footnote{Idem 82.} To illustrate, in 1997 two army generals were arrested on charges of being on the pay-roll of major drug cartels. Amongst these two was General José de Jesús Gutierrez Rebollo, chief of Mexico’s anti-narcotics offices and counterpart of the white house.\footnote{Ted Galen Carpenter, Bad neighbor policy. Washington’s futile war on drugs in Latin America. (New York 2003) 177.} This altogether had weakened the credibility of the military.\footnote{Luis Rubio, Mexico under Fox (Colorado 2004) 300.}

Noteworthy, even though the drug trade in Mexico was growing due to the incentive to dissipate monopoly rents and because of corruption, the annual estimated profits decreased. Although the exact amount of revenue generated by cocaine, marijuana, and heroin is unidentified because the value of the illegal markets are exceptionally challenging to estimate. Moreover, estimates vary amongst different sources. Still, we could indicate that illicit drugs are exceedingly lucrative. Estimated was that by the midd-1990s the Mexican drug export industry generated between 25 and 50 billion US$.\footnote{Alan Knight, ‘Narco violence and the state in modern Mexico: in Will G. Pantsers ed. Violence, Coercion, and State-Making in Twentieth-Century Mexico (California 2012) 126.} Nowadays, it is estimated that the Mexican drug industry annually generates profits between 11 and 39 billion US$.\footnote{David A. Shirk, ‘The drug war in Mexico: confronting a shared threat’, council on foreign relations march 2011. 7.} The graph in figure 1 is made up of different profits estimates. Therefore, the profit seems much lower. Still we could use this declining trend since 1991 to evaluate the decline in profits.

**Figure 1** Annual profits of the Mexican drug industry

![Graph showing annual profits of the Mexican drug industry](image)

As becomes clear from the graph in figure 1, the peak in annual profits of the illicit Mexican drug industry was around 1990-1991. After that period, profits decreased. This could be explained by a couple of reasons. A Spanish professor Resa Nestares – Latin American and drug expert – explains this decline in profits by two reasons. Firstly, the reduction of marijuana sales, which was caused by a decline in demand of Mexican marijuana. Secondly, in the 1990s towards the year 2000 the prices of marijuana, heroin and cocaine all fell, which severely reduced the drug profits.  

In addition these decreasing drug prices can be explained by the ‘profit paradox’ coined by Bertram, Blackman, Sharpe and Andreas in their book ‘the price of denial’. Following the ‘profit paradox’: increased enforcement in the form of prohibitions and anti-drug efforts, will increase revenues of additional production, which results in increasing participation in illegal markets and thus in more supply of the illegal commodities which leads to lower prices. This occurrence can be seen in the rising number of Mexican drug cartels which lowers prices because of growing competition and supply. For Mexico, as stated in chapter 1 and also mentioned earlier in this chapter, after the demise of the Colombian drug trafficker Gallardo in 1989, four Mexican drug cartels – the Tijuana Cartel, the Sinaloa-Sonora Cartel, the Juárez Cartel, and the Gulf Cartel – stood up. Moreover, during the years since 1990 until today, the number of Mexican drug cartels have increased to at least seven cartels. In addition, the supply of cocaine stemming from Mexico increased: in 1989 a third of all cocaine for the U.S. market entered through Mexico, while by 1992 this number had risen to 50%, and by the late 1990s to 75-85%. Moreover, as can be seen in the risen number of Mexican drug cartels and Mexico’s near monopoly position in heroin smuggling towards the U.S. in the seventies, combined with the decreasing drug prices, we might conclude that supply of heroin increased as well. With regards to marijuana – as was stated before – the demand of marijuana decreased, which lowered the prices of marijuana and its profits.

3.3.2.2 Sub-conclusion rent-seeking within the market 1990-2000.
To conclude, despite anti-drugs enforcement under the last ten years of the ruling of the PRI drug trafficking in Mexico became bigger and bigger. Likewise, the response to drug trafficking and the related corruption by the Mexican government during the 1990s did too,
which could be witnessed in the expansion of the military in drug enforcement and corruption appearances. This could be explained by the rent-seeking framework as anti-enforcement within the illegal drug markets until 2000 racketed rent-seeking. That is, even though prices decreased and profits dropped, drug trade in Mexico boomed due to, amongst other factors, an accompanied rise in corruption in Mexico and the desire to emulate rents, which stimulated market participants to enter the drug markets – as seen in the increasing number of Mexican drug cartels. To be make sure, the desire to dissipate rents caused by the prohibition and expanding enforcements and lingering corruption within the market made prone to rent-seeking.

3.3.2.3 Under the administrations of the Partido Acción Nacional 2000-2012

The victory of former president Vincente Fox of the Partido Acción Nacional (PAN) in 2000 meant the end of PRI which ruled Mexico for seven decades. Fox ruled Mexico from December 2000 until November 2006. President Fox made public security and the problems facing Mexico’s law enforcement agencies his primary focus. The Fox administration’s resolute approach was seen amongst other actions, in the establishment of the Ministry of Public Security (Secretaría de Seguridad Pública, SSP), in the attempt to terminate the corrupt Federal Judicial Police force by replacing it with the Federal Investigative Agency, and in a closer bond with the U.S.249 As a consequence, the administration under Fox arrested over 79,000 people related to drug trafficking, including 15 cartel leaders, 74 lieutenants, 53 financial officers, and 428 hit men.250 Nevertheless, Mexico's Deputy Attorney General for Organized Crime, José Luis Santiago Vasconcelos, claimed in February 2006 that the Mexican drug cartel gangs were becoming ever more powerful by the increasing employment of hit men who were filling in the gaps of the earlier arrested cartel leaders and other drug traffickers.251 Under president Fox, the role the military played in combating the war on drugs in Mexico, was tried to play down because of wide spreading corruption related to narco business within the military. The only role the military played was the eradication of drugs and intelligence service.252 Hence, under the administration of Fox the police and special units


were more used to combat narco-traffico. All anti-drug efforts again did not lead to the desired results.

On the contrary, Fox’s strategy in arresting key players in the drug business had led to more violence between rivaling drug cartels and according to a report by the Congressional Research Service of the U.S., ‘Efforts drug law enforcement under President Fox, December 2000 to October 2004’, the illegal drug trade from Mexico to the United States was virtually increasing under the Fox administration; drug estimates for cocaine, heroin, and marijuana stemming from Mexico to the U.S. were estimated higher in 2003 than before those years.\(^{253,254}\) As stated before, the logic behind this lies in the demand of illicit drugs and the accompanied monopoly rents caused by prohibition and anti-drug enforcement which generates incentives to enter the illicit drug markets business each time government agencies capture a big drug capo or each time a huge amount of drugs is intercepted.\(^{255}\) To illustrate, in 2005 the U.S. State Department stated that 90% of the cocaine stemmed from Mexico, and that Mexico ranked the second largest supplier of heroin to the U.S.\(^{256}\) Moreover, Mexico was also seen as the leading producing and transit country for methamphetamine and other psychedelic substances. In addition, Mexican drug traffickers gradually increased operations in all illicit drug sectors in the United States by dominating most of the supply. Furthermore, Mexican drug cartels continued to launder huge amounts of money by exploiting Mexican banks and financial institutions to transfer the illegal money into the global financial system.\(^{257}\) Thus, Mexico under Fox remained the principal transit country for cocaine stemming from the Southern cone, and the mayor supplier of marijuana and heroin by supplying the largest volumes of drugs destined for the northern neighbor.\(^{258}\)

Moreover, under the administration of Fox, drug corruption scandals relating to state officers did not stop. To illustrate, in 2001, major drug lord Joaquin Guzman Loera ‘El chapo’ escaped from a federal Mexican prison. El chapo’s escape was deeply coordinated and


\(^{254}\) N.B estimates in percentages vary amongst different sources. Nevertheless the mentioned estimates appear to be higher than in reported in previous years of the used report: ‘Efforts drug law enforcement under President Fox, December 2000 to October 2004’,


\(^{256}\) Luis Rubio, Mexico under Fox (Colorado 2004) 300.


involved 2.5 million US$ in bribes, pay-off to state officials within Mexico’s law enforcement.\(^{259}\) In 2006, when Felip Calderón took office it was crystal clear that Mexico was under siege by well-organized drug cartels. Therefore, Calderón urged to reform the extradition law which made extradition of drug pins to the U.S. possible.\(^{260}\) Moreover, in sharp contract with the anti-drug polices of Fox, Zedillo and Salinas, Calderón declared on December 11, 2006 the war on drugs against the Mexican drug cartels and lawbreakers by deploying 45,000 federal police and troops.\(^{261}\) To be sure, even though the aforementioned predecessors already involved the Mexican military army to fight against drug trafficking, under Calderon the scale, strength and promise was much higher than the anti-drug efforts of the earlier administrations. Explicitly, Calderón determined to block all Mexican cartels and their activities via roadblocks and drug controls in suspected drug safe houses in order to disable the logistics and mobility of the drug cartels.\(^{262}\)

Therefore, during the administration of Calderón again a clear rise in military budget spending can be witnessed. To make clear, during those years Mexico was not using its army in a war or in a conflict. Moreover, as already mentioned earlier, Mexico has no foreign nation-state opponents and no ambition to enforce itself upon other states. As seen in the International System and international organizations, Mexico rejects the use of force to settle disputes and opposes interference by one nation in the affairs of other states. Mexico’s principal operations are domestic anti-drug missions, rural counterinsurgency, and disaster recovery.\(^{263}\)

Under the administration of Fox also a rise in military budget spending can be witnessed, but as aforementioned, Fox gave the Mexican police a bigger role in fighting the illicit drug trade. Nevertheless under Fox, the military was deployed mainly in eradication missions. In table 2 Mexico’s military budget (in Million Mexican Pesos) per financial year (started in January) is shown.\(^{264}\)


\(^{261}\) Idem 119.


Table 2: Mexico’s military budget per financial year

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tr>
<td>***</td>
<td>[31,422]</td>
<td>[33,074]</td>
<td>[33,598]</td>
<td>[35,014]</td>
<td>35,314</td>
<td>39,467</td>
<td>44,496</td>
<td>52,235</td>
<td>54,977</td>
<td>64,348</td>
<td>68,411</td>
<td>74,792</td>
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*** Military budget in million Mexican Pesos


Additionally, during president Calderón’s administration, the Mexican government has spent approximately 7 billion US$ in an 18-months-during campaign against drug cartels.265 Moreover, Calderon sought deeper bilateral cooperation with the U.S. to fight against drug trafficking in Mexico. Therefore, the Merida initiative was brought to life on 22 October 2007 and was signed on June 30, 2008. In December 2008, the initiative started to operate for three years. The aim for the Merida program was to assist Mexico in the war against drugs by helping it with technology, training and financial resources.266 Calderón’s war on drug has been welcomed by many. In the beginning it seemed very promising since Calderon also extended anti-corruption mechanism to cut-off corrupt police officials. Nonetheless, corruption in Mexico in general and related to drug trafficking is still triumphing.267 In addition, corruption cases have been marked very high. Therefore, today a lot of Mexicans are afraid that the military would be as corrupt as the law enforcement agencies are. Furthermore, policy exports have pointed fingers to address Mexico’s long-standing intuitional inadequacies.268 Moreover, based on data from the instances of public safety and law enforcement in the Mexican states, the death rate in the five years of war against drug trafficking in Mexico exceeded over 60,000 deaths.269 Also, Mexico’s security forces did release statistics on counter narcotic actions, which show a fall in drug seizures as in eradication efforts since 2010.270 That stated, I will now address Mexico’s final settlement based on available data on drug profits and quantities within the illicit drug markets.

266 Francisco E. Gonzáles, ‘Mexico’s Drug Wars Get Brutal’, Current History (February 2009) 72-76. There 76.
As mentioned before, it was estimated that by the mid-1990s the Mexican drug export industry generated between 25 and 50 billion US$. Nowadays, it is estimated that the Mexican drug industry annually generates profits between 11 and 39 billion US$. The decreases in estimated profits reveal a decrease in prices while the amount of drugs have remained more or less constant and in some extents even increased, except for marijuana in the 1990s. Moreover, as stated above, under Fox the Mexican drug trade in cocaine stemming from the Southern cone, and the Mexican supply of marijuana and heroin for the U.S. increased. Under Calderón estimates from 2009 show that cocaine availability was decreasing, while heroin, marijuana, was constant or increasing available. More importantly, as once the prices of the illegal comities decreased, latest estimates over the years 2006 until 2009 show that the drug prices did increase again. This occurrence can be explained by the higher anti-drug enforcement seen in the Military expansion, the Mérida initiative, and other special units to combat drug trafficking in Mexico, which made drug trafficking more difficult and thus resulted in higher monopoly rents as the prices rose. Therefore, we could state that these anti-drug efforts within the drug markets made more prone to rent-seeking as the drug business became more lucrative and thus racketed new incentives to enter the drug market. Moreover, as we will see later on in subsequent sections, this was accompanied by a rising level of narco-violence in order to obtain a competitive position within the drug business. To illustrate this occurrence, estimates of cocaine, heroin and marijuana are given in the following sections.

**Cocaine**

**Table 3:** Mexico’s share in Cocaine availability in the U.S..

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<tr>
<td>Estimates of Mexico’s share in the total supply of the US cocaine market</td>
<td>33%</td>
<td>50%</td>
<td>75-85%</td>
<td>75-90%</td>
<td>90%</td>
<td>95%</td>
<td>95%</td>
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Table 3 shows Mexico’s share in cocaine availability in the U.S. These figures show an increase of Mexico’s share in supply in the U.S. cocaine market from 1989 until 2011. On the other hand, cocaine availability in the U.S. market has decreased since 2006 – although an exact number of cocaine availability is lacking due to its occult character. The interaction of increased anti-drug efforts and the related high cartel violence in Mexico, combined with a decline in cocaine production in Colombia probably have led to the decreased availability of cocaine in the U.S.. In addition, in 2007, large seizures of cocaine from Colombia to Mexico have been caught; this might have led to the first testified cocaine shortages in U.S. drug markets. Still, huge amounts of cocaine persist to be trafficked from South America via Mexico as the main transit country to the United States. Because of this shortage the price of pure cocaine per gram increased from $94.73 in 2006 to $174.03 in 2009 (an increase of 84 %). This rise of cocaine price made the market more lucrative in terms of profit margins. Moreover, as table 3 indicates, the percentage of Mexico’s share of the supply of cocaine in the U.S. has increased. Nowadays, Mexico supplies around 95 percent of the current available cocaine in the U.S.. Therefore we could state that Mexican drug cartels have relatively grew in power by dominating and dissipating monopoly rents within the U.S. cocaine markets seen in higher prices caused by scarcity.

**Heroin, poppy**

**Table 4:** Heroin, poppy cultivation and production in Mexico

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<tbody>
<tr>
<td><strong>NET CULTIVATION OF OPIUM/POPPY IN HECTARES</strong></td>
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<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>5,100</td>
<td>4,000</td>
<td>5,500</td>
<td>3,600</td>
<td>1,900</td>
<td>4,400</td>
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<td>4,800</td>
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<td>3,300</td>
<td>5,000</td>
<td>6,900</td>
<td>15,000</td>
<td>15,500</td>
<td>n.a.</td>
</tr>
<tr>
<td>World</td>
<td>257,515</td>
<td>251,848</td>
<td>237,819</td>
<td>216,204</td>
<td>221,952</td>
<td>142,094</td>
<td>180,252</td>
<td>168,830</td>
<td>195,540</td>
<td>151,500</td>
<td>201,000</td>
<td>235,700</td>
<td>213,003</td>
<td>185,935</td>
<td>195,657</td>
</tr>
<tr>
<td><strong>POTENTIAL PRODUCTION OF OVEN-DRY OPIUM IN METRIC TONS</strong></td>
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<tr>
<td>Mexico</td>
<td>55</td>
<td>46</td>
<td>60</td>
<td>43</td>
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<td>91</td>
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<td>108</td>
<td>149</td>
<td>325</td>
<td>425</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>4,355</td>
<td>4,023</td>
<td>4,346</td>
<td>5,764</td>
<td>4,691</td>
<td>4,630</td>
<td>4,520</td>
<td>4,783</td>
<td>4,850</td>
<td>4,620</td>
<td>6,610</td>
<td>8,890</td>
<td>8,641</td>
<td>7,853</td>
<td>4,860</td>
</tr>
</tbody>
</table>

(1) The Government of Mexico reported a gross opium poppy cultivation of 38,167 hectares (2006) and estimated gross opium production of 211 mt (2006), 122 mt (2007), 344 mt (2008), 167 mt (2009) and 170 mt (2010). These figures are not directly comparable to the numbers presented in this table. The Government of Mexico is not in a position to confirm the US figures as it does not have information on the methodology used to calculate them.

Source: UNODC, 2011

With regard to heroin cultivation in Mexico, during the years 1996 until 2007 we only can witness a substantial decrease in heroin cultivation in the years 1999, 2000, and 2002 (see table 4). Therefore, we could state that poppy production remained more or less constant during 1996 until 2007. On the other hand, over the years 2008 and 2009 we can see a sharp

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273 Idem.
increase of net cultivation of poppy. Moreover, in 2009, Mexico had for the first time a higher potential opium production than Myanmar.\textsuperscript{274} In addition, from 2004 through 2008, pure heroin production estimates for Mexico increased 342 percent, from 8.6 metric tons to 38 metric tons.\textsuperscript{275} The main peak of Mexican heroin production can be witnessed between 2007 and 2009 (see table 5).

\textbf{Table 5: Potential Heroin Production in Mexico}

<table>
<thead>
<tr>
<th>Potential Pure Heroin Production in Mexico, in Metric Tons, 2004-2008</th>
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<tbody>
<tr>
<td>2004</td>
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<tr>
<td>Mexico</td>
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</tbody>
</table>

\textit{Source: U.S. Government estimate.}

As seen in table 6, poppy eradication by the Mexican state has remained more or less constant. The poppy eradication ranged from 1996 until 2001 from 14,671 to 17,449 ha. Peaks in eradication were noticed in the years 1997, 1998, 2002, 2003, and 2005. On the contrary, a decrease in eradication in relation with previous years can be witnessed in the period between 2007 and 2009. This decrease can be explained by Calderón’s war on drugs, since Calderón’s primary focus was on security issues instead on eradication.

\textbf{Table 6: Opium poppy eradication}

<table>
<thead>
<tr>
<th>Opium poppy eradication (ha)</th>
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<tbody>
<tr>
<td>Mexico</td>
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</tbody>
</table>

\textit{Source: UNODC, 2011}

Furthermore, in 2009, heroin from Mexico was considered less expensive in the U.S. consumer market in comparison with South American countries. The U.S. stated that the Mexican heroin had a price range from 32,880-70,000 US$/kg, while heroin from South America had a price range from 44,000-113,333 US$/kg.\textsuperscript{276} On the contrary – based on all heroin purchases performed by law enforcement agencies in the U.S. - in the last quarter of 2009 the price per pure gram of heroin was at the highest level during the period 2006-2009, while the average purity was the lowest during the same period.\textsuperscript{277} Related to that, U.S. heroin demand had increased. Evidence stated that Canada and the U.S. consumed double the

\textsuperscript{274} UN world drug report 2011. 61.
\textsuperscript{275} National Drug Threat Assessment 2010. U.S. Department of Justice National Drug Intelligence Center (February 2010).
\textsuperscript{276} UN world drug report 2011. 79.
\textsuperscript{277} Idem.
amount of heroin that Latin America produced. Therefore, the Mexican drug cartels’ share of the heroin market in the U.S. had been growing over the years. Namely, the risen heroin production in Mexico combined with an increasing heroin demand from the U.S. had powered the expansion of Mexican heroin distribution in the U.S. Likewise, as the U.S. Drug Intelligence Center stated in 2008, the Mexican heroin production increased by 105 percent from 1999 to 2007.

By looking at both eradication and production numbers of heroin, we can conclude that in the years 2007, 2008, 2009 - when the war on drugs in Mexico was ongoing - eradication decreased while production increased. This increased production can be explained by the expected risen profit margins for drug trafficking as the anti-efforts seen in the war on drugs made drug trafficking more difficult and thus made it more lucrative. Namely, as above stated, heroin prices were estimated at the highest level in 2009. While prices seemed to rise, accompanied by the anti-efforts, U.S. heroin demand increased which also caused drug prices to rise. Altogether this had led to more supply on the heroin markets as profit margins for the traffickers became higher. Moreover, Mexican heroin seemed to have a comparative advantage over South American heroin, since the price of Mexican heroin was lower. Therefore, prices of heroin increased due to a higher Mexican heroin demand stemming from the U.S., and due to higher monopoly rents as the anti-efforts and enforcements made drug trafficking more difficult. Altogether this had led that Mexico’s heroin production increased, as profits were expecting to be higher.

**Marijuana**

The total production of Mexican marijuana has augmented an estimated 59 percent since 2003. Causal to the increased production in Mexico is a reduction in marijuana seizures which has led to more marijuana being trafficked to the U.S. from Mexico. Reports on marijuana from the U.S. put forward that marijuana production in Mexico had increased from 5,600 ha in 2005 to 17,500 ha in 2009. This increase could be seen as the result of changing anti-drug efforts in Mexico: less focus on the reduction of illicit drug crops but more focus on

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281 Idem.

282 Idem.
security issues.\textsuperscript{283} The amount of eradicated marijuana diminished by 48 percent from 2006 (30,162 hectares) to 2008 (15,756 hectares). Additionally, eradication numbers in 2009 were expected to be small as well.\textsuperscript{284} On the other hand, seizures of marijuana increased from 6 kg to 297 kg in 2008 (the highest seizure level since 1995). In 2009 however, seizures shrunk to 11 kg.\textsuperscript{285} The increasing marijuana production can be explained by higher expected profit margins as the anti-enforcements seen in the war on drugs made drug trafficking harder to exist.

To makes sure, marijuana is not the most lucrative drug to traffic it still is considered more lucrative compared to legal crops such as tomatoes or corn. In Mexico the price of a pound of marijuana ranges from 15 US$ to 20 US$. Notwithstanding, once trafficked over the Mexican border towards the U.S., the price for a pound of marijuana quickly increases to around 500 US$.\textsuperscript{286} Based on the above findings, one can conclude that Mexico’s production and market share within the U.S. marijuana market has increased over the years despite anti-drug enforcements.

\subsection*{3.3.3 conclusion: rent-seeking within the market 1990-2012}
Under the last ten years of the PRI drug trafficking expanded, while the drug enforcement efforts augmented. Between 1990 and 2000, drug profits and prices seemed to decrease. This occurrence could be explained by rent-seeking and the profit paradox as more market participants - seen in the increased number of active Mexican drug cartels which increased supply for the U.S. drug markets - entered the drug markets in order to dissipate monopoly rents due to the anti-drug efforts.

On the contrary, during 2006-2009, drug prices seemed to increase. This occurrence also can be explained by rent-seeking: Under Fox the supply of cocaine, heroin, and marijuana trade increased. Under Calderón the supply of cocaine decreased, while the supply of marijuana and heroin for U.S. demand was rising. Therefore, we could state that flows of drugs to the U.S. have remained more or less unhindered. Moreover, the prices of heroin and cocaine have increased over the years 2006 until 2009. Therefore, we could assume that also profits have risen for those years. The rising prices of these drug commodities could be

\begin{footnotes}
\item[284] National Drug Threat Assessment 2010. U.S. Department of Justice National Drug Intelligence Center (February 2010).
\item[285] UN world drug report 2011. 200.
\end{footnotes}
explained by the expanded anti-drug efforts and state interventions seen in the Military expansion, the Mérida initiative, and other special units to combat drug trafficking in Mexico, which made drug trafficking more difficult and thus resulted in higher monopoly rents as the drug prices rose. Thus, we could argue that these state interventions have racketed incentives to get involved with drug business as seen in the higher cultivation of heroin and marijuana and the scarcity on the U.S. cocaine market in order to dissipate the higher created rents due to higher prices caused by the state interventions. In other words, the state interventions made additional rent-seeking behavior more prone to occur. Moreover, drug related violence had shifted gears under the administration of Felipe Calderón. In the next section, after public interest versus individual interest is elaborated upon, the generation of violence as a negative externality generated by drug trafficking in Mexico will be addressed from 1990 until 2012 to indicate Mexico’s net outcome of rent-seeking within the drug markets.

3.4 Negative externalities of the illicit drug markets, effects of rent-seeking

3.4.1 Public choice: public interest and individual interest in drug trafficking
Rent-seeking as a framework of Public Choice theories helps us to point out why certain groups benefit extremely and other groups lose from certain policies or market disequilibria. With that in mind, we should now try to identify the public interest and the individual interest for the Mexican society and those who benefit from drug trafficking.

Few would disagree on the fact that public interest is an abstract subjective perception. Still, a lot have been written about public interest in the academic discipline of political science. A useful definition of public interest stems from Carolyn Wells in her PhD dissertation: ‘A Public Interest Framework for Public Policy Development: A property and urban planning perspective.’ She states that public interests can be defined as: “those interests that all people have in common because they directly or indirectly influence the living conditions of all people. These interests are multiple and competing and therefore not equally valued by sectors of society”.

Related to public interests, Public Choice theory focuses on individuals who pursue their own welfare based on rationality. This pursuing of welfare seen as individual interest or group interest often is incompatible with public interests for a society as a whole as personal

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welfare can be obtained at the expense of the public interest. Problematic to these concepts is that they are hard to find and to measure because of their subjective character. Still, group interest or individual interest for this thesis could be defined as groups benefiting by obtaining economic rents generated from the illegal drug markets and captured at the expense of Mexico and her citizens—seen in violence and corruption. To illustrate; those rents could be captivated by politicians who consider other rules for some (corruption), or could be dissipated by drug cartels who ‘gain’ a monopoly position on the banned illicit drug commodities, or could be absorbed by policemen and bureaucrats who gain employment plus an additional income via corruption, favouritism, patronage etcetera.\(^{289}\) Therefore the individual interest or group interest in this thesis will be defined as is dissipating rents - or differently stated, rent-seeking behavior - related to drug trafficking.

Public interests in this thesis will be defined by focusing on the negative externalities caused by drug trafficking on the society as a whole. For this thesis, I argue that these negative externalities are directly opposing public interest. Negative externalities for the Mexican society as a whole caused by narco-traffic could be classified in three main types: 1) the creation of local drug markets, 2) the generation of violence and, 3) the promotion of corruption.\(^{290}\) Taking these negative externalities into account and the accompanied endangered living conditions as stated in the definition of Wells, we could state that local drug markets are not a public interest as drug trafficking has a very strong relation with other crimes such as human trafficking, arms trafficking, and money laundering, which challenges the security of a country’s people and its institutions.\(^{291}\) Moreover, violence is not a public interest of the Mexican society. On the contrary, one main principle of living conditions is to feel safe and secure. Narco-violence is closely related to export markets, cargo and huge scale production of drugs and deeply related to the high market value of the illicit drug markets in which cartels practice and distribute wholesale drug commodities. Within these markets, the drug cartels violently control to narrow the flow between mass demand and mass supply of narcotics. This, narco-violence should be distinct between inter-violence and collective violence. The former refers to organized violence between Mexican drug trafficking organizations. The latter occurs random and therefore anyone could be ending up dead which


generates public mass tensions within the country as a whole. Considering the huge accompanied profits of drug trade, we could state that in the case of drug traffickers violence-pays off and should be seen as an individual interest, but at the expense of the Mexican society. Therefore, for the society as a whole narco-violence is not a public interest. Furthermore, corruption is also at odds with the Mexican public interest. Namely, the consequences of corruption for society are immense. Corruption discourages investment and hampers economic growth. It raises inequality which leads to instability and anti-trust in the public administration and the rule of Law. In addition it shifts public expenditure to personal benefit.

To conclude, drug trafficking is not a public interest, but an individual or group interest. As mentioned in chapter 2, small groups - following the logic of Mancur Olsen’s ‘collective action’ - are more likely to pursue their interests; for Mexico the rewards of the massive illicit drug economy are concentrated in the hands of a select small group. To clarify, the negative externalities of the illicit markets are at odds against public interests, but very profitable for only a small group of drug traffickers and collaborators. Namely, it decreases wealth for the society as a whole, while at the same time increases wealth for a small group. In a similar vein, the net effect of rent-seeking is a reduction of total social wealth. To indicate the welfare losses for the society as a whole, in the next section I will address violence as a negative externality. Later on, the second pillar of this thesis will focus on corruption as a form of rent-seeking which at the same time should be seen as a negative externality caused by rent-seeking within the illicit markets.

3.4.2 1990-2012 Violence as a negative externality
Violence as a negative externality of the illegal drug market reveals state failure in a way that these externalities should be seen as a negative market outcome for the society as a whole. By placing this in an IPE perspective, we could clearly state that the interaction between the state and the market clearly affects the society as whole. IPE’s tripartite perspective on societies, markets, and the state therefore needs to be seen as very useful in a way that the society additionally will affect economic and political structures within states. This also needs to be seen as tensions between the market, the state, and the society. Namely, as mentioned before,

a small group profits from violence at the expense of the whole society. Therefore the sharp divide between the benefits and negative externalities of violence reveal opposing interest groups within the Mexican society.

While narco-violence yet has been problematic before Calderón declared war against the drug cartels, after the ‘war’ declaration violence relating to drug trafficking have shifted gears in Mexico: the death toll in the five years of war against drug trafficking in Mexico exceeded over 60,000 deaths.  

To illustrate the magnitude, cities as Tijuana and Juárez in northern Mexico are seen as the most dangerous cities with the highest killing number. Moreover, as the Mexican execution-barometer counted 10,514 drug related killings in 2010, it was estimated that this number would rise to 12,000 killings at the end of the year. To compare: the overall number of U.S. military victims in Iraq and Afghanistan were about 5,700 for the entire period of both wars.

In the period 1990 until 2000 reported numbers of crimes, killings and violence have not been reporting adequately. Still we could state, that the increased law enforcement by the Mexican administration under Zedillo and Salinas to combat drug trafficking, in combination with the higher illicit drug flows throughout Mexico, have generated an increase of violence in the late 1990s. In addition, drug related violence has increased in Mexico since 2000 as a result of the Mexican government’s suppression on drug cartels. Namely, in 2000 the PRI no longer controlled the presidency resulting in a power vacuum which lead to more violence as the Mexican drug cartels needed the fight for their share in the newly unstable drugs market which was no longer ‘regulated’ by the same level as under the PRI. Therefore, during the ruling years under Fox, intra-cartel violence can be noticed. To illustrate, the arrest of the leader of the Tijuana Cartel in 2002 and the arrest of the leader of the Gulf Cartel in 2003 led to a brutal war between rivaling drug cartels in order to reaffirm control over turf and resources, which resulted in new alliance of the Mexican drug trafficking

299 Idem 72.
Another trend in drug related violence can be traced back to 2005, during which drug violence became extremely prominent. Meanwhile, Fox earlier in his administration years, had tried to purge and reorganize the Mexican police force in order to overcome the corruption within the institutional structure. In 2005 it became evident that the reorganized police again or still was capitulated to bribes and threats by the major Mexican cartels, which racketed violence. To illustrate, in 2005 a spy who operated for drug cartels had a position in the Federal presidential office. Because of this rising violence and again lingering corruption, Fox started a military operation alongside the U.S.-Mexican border which again had led to more violence. To make sure, during those years the situation concerning drug related violence intensified and began to transmute into a bloodbath with random civilian causalities which got worse under Calderón’s war on drug. Namely, an additional trend in drug related violence can be witnessed in the period between 2008 and 2011. Figure 2 illustrates the rise in violence under the administration of Calderón.

Figure 2: Drug related Killings 2006-2001 in Mexico

![Graph showing drug related killings 2006-2011](http://www.cato-at-liberty.org/another-pyrrhic-victory-in-mexicos-drug-war/)

Altogether, we must conclude that narco-violence in Mexico is extreme and has increased over the years. Moreover, research reports on narco-violence mention three factors that have caused the explosion of drug related violence: 1) the fractionalizations and disruptions of drug cartels; 2) changing structures of bureaucratic corruption, and 3) the governmental efforts to

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stop organized crime via the military and special forces. All three factors have already been analyzed in this chapter. But to conclude we could state that the first factor refers to captures of big drug pins, which resulted in turf wars in order to control certain drug routes and maintain or obtain certain monopoly positions within the drug business, which have led to inter-violence between the battling cartels. The second factor is related to the end of the PRI and her corruptive structure and bonds with narco-players. In addition, under the administrations of Fox and Calderón, the yet new settled corrupt drug practice were tried to play down as seen in anti-corruption efforts. Regarding the third factor, violence should be seen as a response against the efforts of the Mexican state within the illegal drug markets. The Mexican drug cartels, in order to survive, tried to corrupt and brutally fight the military and the state.

To be sure, violence as a negative externality brings major tensions within a society. Hence it needs to be seen as state failure as a consequence of the negative outcomes of the illegal drug markets. Moreover, the astonishing drug related killing reveal that the Weberian legitimate monopoly of the use of force by the state seems illegitimate be shared with drug traffickers. In sum, violence needs to be seen a loss in welfare for the Mexican society and needs to be seen as state failure. On the contrary the use of violence, needs to be seen an individual interest in order to keep up with drug trafficking and thus earning extreme profits. Therefore drug related violence brings major tensions within a society in order to approach, the ‘total’ welfare loss of society caused by rent-seeking related to drug trafficking. I will now draw upon corruption as a form of rent-seeking which also should be seen as a side effect of the illegal drug markets.

3.5 Rent-seeking outside the market force of the drug market
The next pillar of rent-seeking addressed in this thesis will be rent-seeking outside the direct working of the illegal drug market. As I already discussed the public interest versus the individual or group interest, I will now draw upon how small groups can profit enormously from corruption. To make sure, corruption relating to drug trafficking should be seen as a way to enforce property rights within the illegal drug markets, but should also be seen as an additional income for bureaucrats - thus rent-seeking outside the working force of the market. In this section, main focus will lie on bureaucratic corruption related to drug trafficking. As stated in chapter 2, corruption, like other forms of rent-seeking signifies a manner to

discharge market forces and to influence policies towards one’s own benefit. Therefore, corruption can be well determined as ‘the transgression of formal rules governing the allocation of public resources by officials in response to offers of financial gain or political support’. Related to that, the character of a society and the accompanied institutions within a state play a significant role in the behavior of civil servants or other state officials in a way that they will embrace rent-seeking to earn an additional income either legally or illegally.

Normally an answer to respond to corruption - which regulates the illegal economy - is to increase state intervention (which under the classical rent-seeking model increases rent-seeking opportunities). Likewise, as rent-seeking in the legitimate economy is reduced by limiting state intervention, some political structures may become more reliant on revenues outside the legitimate working of the economy. In that sense bribes do not only function as additional income of bureaucrats, it can also serve to sustain certain political structures.

3.5.1 Corruption in Mexico related to drugs
For the Mexican case, the attempts to stop state control by the privatization package also have lingered corruption as we have, for example, seen in the banking system in Mexico and in the consequence of the privatizations which were implemented without transparency and regulatory institutions. Moreover, in Mexico, the major drug cartels were able to buy their influence within the Mexican state via corruption. Therefore, significant parts of the Mexican institutional order – the police, judiciary and public administration organs - should be seen controlled by drug cartels members and therefore are functioning immoral. In addition, corruption related to drug trafficking should be seen as a fixed factor.

For Mexico, the judicial system, the Mexican bureaucracy, and specifically the police force have long been pigeonholed as being corrupt. Moreover, as Alan Riding states in his book ‘Distant neighbors’: “Corruption is both the glue that holds the Mexican system together and the oil that makes it work’’. In addition, rule of law has been marked as non-existent and could only work if you pay a bribe. Similarly, the U.S. government handbook on Mexico elaborates on this as: ’The rules of political competition.’ It distinguishes this by means of two types of corruption. On the one had there are bribes on a low level – also known

307 Idem 194.
310 Alan Riding, Distant neighbors (New York 1986) 165.
as ‘la mordida’, which literally means bite - and on the other hand there is large-scale corruption. The latter referring to narco-corruption.\(^{312}\) Therefore the phenomenon corruption itself is not new in Mexico. However, the increasing scale of corruption is. As the author Mike Grates states, “in the old days, mordida was accepted as an efficient lubricator, a means of getting things done while sharing the wealth in an otherwise unequal society. But with the arrival of the narco-billions everything shifted gears.”\(^{313}\) In Mexico corruption began to get out of control. In a similar vein, as Jorge Chabat argues, narco-dollars have infiltrated all activities of law enforcement in Mexico.\(^{314}\) Facts show that drug trade has not only survived, it has also flourished over Mexican drug control struggles.\(^{315}\) Mexican and United States officials seek to explain this development by pointing out the corrupting power of drug trade. In addition, as Peter Andreas states: “corruption is a two-way relationship: it reflects the influence of drug smuggling over the state and the state's influence over drug smuggling and greater drug control capacity has arguably only deepened this influence. Corruption involves not only the penetration of the state but also penetration by the state. Drug smugglers must purchase an essential service monopolized by government officials: the non-enforcement of the law. Those in charge of enforcement must be bribed because they cannot be entirely bullied or bypassed.”\(^{316}\)

As mentioned before, these corrupt practices became known as ‘la plaza’. Under this concept drug traffickers could continue to bribe governors, policemen, mayors, military and others in high positions in order to get a ‘permission’ to carry out their job.\(^{317}\) The bribes paid, could be seen as a sort of tax paying. The collected ‘taxes’ from drug traffickers is also known as ‘la copa’ for personal enrichment for state officials in law enforcement.\(^{318}\) Therefore political agents should be linked to drug production and trafficking business on the ground that the power to control and to regulate drug trafficking lies by the state and their officials who desire profit.\(^{319}\) In addition, corruption did not only occur because of the high bribes but also occurred because of fear. In Mexico the working ethos between state officials, civil


\(^{314}\) Idem 171-172.


\(^{316}\) Idem 161.


servants and other persons with the Mexican drug cartels came to know as ‘‘Plata o Plomo’’ Silver or Lead. In reality this work ethos means you take a bribe otherwise you get killed. Moreover, as mentioned in Chapter 2, the Norwegian researchers Halvor Mehlum, Karl Moene, and Ragnar Torvik state that rent-seeking and production are competed when most effective rent-seeking activities occur outside the productive part of the economy but take place via bureaucrats, civil servants, warlords and etcetera. For Mexico the illicit drug markets are not part of the productive official economy, therefore I state that rent-seeking in the drug markets in Mexico should be considered as competing activities with the productive part of the economy. As the aforementioned scholars argued, this behavior pays off when institutions are immoral, and create a disadvantage to produce an actual good or service. As a consequence, more rent-seeking is likely to occur. Based on above, I argue that corruption related to drug business in Mexico could be seen as a main impetraor together with the prohibition on drugs -which generates profits- to stop drug business within Mexico. I will show this by giving an overview of corruption in Mexico during the period 1990-2012.

3.5.2 1990-2000 Carlos Salinas de Gortari and Ernesto Zedillo

Under the ruling times of former presidents Zedillo and Salinas, corruption became more widespread. The functioning of ‘la plaza’ and ‘la copa’ was widely occurring in Mexico until the late nineties. At the end of the 1994, it was obvious that that the Mexican Federal Judicial Police was pierced with corruption behavior in such an extent that most police laborers did not even consider picking up their paychecks, since their income was nothing in comparison with their additional bribed income.

As corruption had shifted gears so did the importance of drug business in the nineties in Mexio. To illustrate, in 1999, the U.S. Drug enforcement administration declared that the power of the Mexican drug cartels had grown “virtually geometrically” over the previous five years and that corruption was “unparalleled”. This increased corruption should be seen as an indicator of the accumulated power of the Mexican drug cartels. Moreover, U.S.

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322 Halvor Mehlum, Karl Moene and Ragnar Torvik, ‘Cursed by resources or institutions?’ 1-25. There 6-7.
325 Idem 169.
ambassador Jeffrey Davidow stated in 2000 that Mexico had become the world’s “main headquarters for drug traffickers”\textsuperscript{326} In addition, since the collaboration with Colombian drug pins, and later on the flourishing role for Mexico in the cocaine trade, the power of corruption unquestionably increased. A notorious example is the kidnapping of the DEA agent Enrique Camarena. Striking about this kidnapping, was the fact that he was abducted by uniformed agents. A DEA officer, Jack Lawn responded to this situation that not only drug trafficking was the problem; also the law enforcement in Mexico was a problem that needed to be fight against as well. Namely, corruption related to drug trafficking was found amongst all high and
low levels of state functionaries.\textsuperscript{327}

To make sure, corruption – even though it already existed - evidently penetrated the Mexican society when drug trafficking grew in Mexico. To illustrate, the magnitude of corruption was revealed in 2001 when the new Mexican prosecutor general discharged almost fifty percent of the country’s federal police officers.\textsuperscript{328} Furthermore, estimates state that in 2001 at least twenty percent of agents who were fighting against the drug trade in Mexico were on the payroll of drug cartels. Moreover, not only persons from the military and police were accused of corruption, also politicians and other high ranking officials widened up in drug-related scandals. To illustrate, in 1998 it was estimated that more than eighty percent of all Mexican law enforcement institutions were directly or indirectly connected to drug trafficking organizations.\textsuperscript{329}

3.5.3 2000- 2012, PAN: Vincente Fox and Felipe Calderón
The victory of former president Vincente Fox of the PAN meant the end of seven decades of ruling by the PRI over Mexico. Fox ruled Mexico from December 2000 until November 2006. While Fox was running for president under the PAN, he claimed to place public security and the elimination of corruption as his top priorities.\textsuperscript{330} In a public speech Fox mentioned the greatness of the problem of corruption: “Corruption is of such magnitude that in public debates and academic discussions (…) it is pointed to as an intrinsic component of the Mexican political culture (…) an endemic phenomenon with deep historical and cultural

\textsuperscript{326} Idem 171.
\textsuperscript{327} Idem 176.
\textsuperscript{328} Idem 179.
In a similar vein, a survey conducted in Mexico in 2001 showed that forty percent of respondents agreed that bribes are needed to cope with government authorities. During Fox’s first months of presidency he still claimed to end corruption. Moreover Fox claimed to solve narco-trafficking and related violence, which already infiltrated Mexico’s political and daily life in at least northern and coastal Mexico. Therefore, under the administration of Fox, a growing number of initiatives and public agencies have been involved with anti-corruption. To illustrate, Fox positioned 1,500 critical sectors under state surveillance. Moreover, several institutions and laws aimed at imitating corruption were initiated. Amongst these was the study the foundation of Transparency International Mexico.

When in 2006, Felipe Calderon came into power; he continued the fight against corruption in specific areas of the public administration. Calderón declared that Mexico needed to “directly confront and overcome” the problem of rooted corruption. In so doing, Calderon launched a ‘Declaration on Anti-Corruption Efforts’, aiming at fiscal reform, education, promotion of transparency, better bureaucratic structures, institutional accountability, and accessible public service.

### 3.5.4 Persisting corruption perceptions

Despite the anti-corruption efforts, corruption is still widely occurring in Mexico. To illustrate the magnitude and the persistence of corruption within Mexico, I will show the Corruption Perception Index (CPI) obtained from the organization Transparency International. This index orders countries based on how corrupt their public sector is perceived. This index is compound by a mixture of polls from observers within and outside the valued countries and other corruption-related data collected from respectable organizations. Under this CPI, corruption is defined as ‘the misuse of public power for private benefit’. Therefore, we could

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use this index to illustrate to what extent rent-seeking in the form of corruption in Mexico is perceived. Nevertheless we need to be aware of the fact that it is a perceived index and not a hard result. The scale used in the CPI ranks from 0 (highly corrupt) to 10 (very clean). Since the CPI was established in 1995 no indexes are available for earlier years.

Table 8: Corruption perception indexes

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI Mexico</th>
<th>CPI U.S.</th>
<th>CPI Guatemala</th>
<th>CPI Russia</th>
<th>Ranking worldwide Mexico</th>
<th>participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>3.18</td>
<td>7.79</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>1996</td>
<td>3.3</td>
<td>7.66</td>
<td>x</td>
<td>2.58</td>
<td>38</td>
<td>54</td>
</tr>
<tr>
<td>1997</td>
<td>3.3</td>
<td>7.61</td>
<td>x</td>
<td>2.27</td>
<td>38</td>
<td>52</td>
</tr>
<tr>
<td>1998</td>
<td>3.3</td>
<td>7.5</td>
<td>3.1</td>
<td>2.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>3.4</td>
<td>7.5</td>
<td>3.2</td>
<td>2.4</td>
<td>58</td>
<td>99</td>
</tr>
<tr>
<td>2000</td>
<td>3.3</td>
<td>7.6</td>
<td>2.9</td>
<td>2.3</td>
<td>59</td>
<td>98</td>
</tr>
<tr>
<td>2001</td>
<td>3.5</td>
<td>7.6</td>
<td>2.9</td>
<td>2.3</td>
<td>51</td>
<td>91</td>
</tr>
<tr>
<td>2002</td>
<td>3.6</td>
<td>7.6</td>
<td>2.5</td>
<td>2.7</td>
<td>57</td>
<td>101</td>
</tr>
<tr>
<td>2003</td>
<td>3.6</td>
<td>7.7</td>
<td>2.4</td>
<td>2.7</td>
<td>64</td>
<td>98</td>
</tr>
<tr>
<td>2004</td>
<td>3.6</td>
<td>7.5</td>
<td>2.2</td>
<td>2.7</td>
<td>64</td>
<td>98</td>
</tr>
<tr>
<td>2005</td>
<td>3.5</td>
<td>7.6</td>
<td>2.5</td>
<td>2.8</td>
<td>69</td>
<td>98</td>
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<td>2.6</td>
<td>2.4</td>
<td>70</td>
<td>163</td>
</tr>
<tr>
<td>2007</td>
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<td>7.2</td>
<td>2.8</td>
<td>2.5</td>
<td>72</td>
<td>179</td>
</tr>
<tr>
<td>2008</td>
<td>3.6</td>
<td>7.3</td>
<td>3.1</td>
<td>2.1</td>
<td>72</td>
<td>180</td>
</tr>
<tr>
<td>2009</td>
<td>3.3</td>
<td>7.5</td>
<td>3.4</td>
<td>2.1</td>
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<td>180</td>
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</table>

Sources: Internet Center for Corruption research: [www.iccg.org](http://www.iccg.org) and CPI index from [www.transparancy.org](http://www.transparancy.org)

As table 8 indicates, corruption within Mexico is perceived on a very high scale. Over the years the corruption perception on administrative and political corruption remained more or less constant, scoring around 3 points. Therefore, based on the low perception index we could suggest that corruption is widely occurring within Mexico’s public sector and that it did not change notable over the years.

In comparison with Mexico’s northern neighbor, we could witness a sharp difference in corruption perceptions. On the contrary, Mexico’s southern neighbor- Guatemala which also holds a very corruptive reputation worldwide due to drug trafficking, the rule of law and bad working institutions- corruption perceptions seem to score lower than Mexico and thus is perceived as a bit more corrupt. Moreover, Russia – a general viewed corrupt country- seems also to score lower. Nevertheless, Mexico should be seen as highly persistent corrupt country.

To illustrate with ‘equal’ perceived countries; in 2011 Mexico ranked 100 from the 182

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339 *idem*
participants, together with Argentine, Benin, Burkina Faso, Djibouti, Gabon, Indonesia, Madagascar, Malawi, Suriname, and Tanzania.\textsuperscript{340}

Another indicator that can be used to illustrate corruption in Mexico are the indexes from the Global Barometer from Transparency International and Mexico, which also provide in a similar way as the CPI, an analysis on the level of corruption. Within the Global Barometer the perceptions about several institutions are given. The Global Barometer indexes perceive corruption from scale 1 (not at all corrupt) – 5 (extremely corrupt).\textsuperscript{341} For Mexico, only three Global Barometer reports were available (2004, 2005, 2010 and 2011). Need to be said, is that these indexes are not hard results but perceived indexes. Related to narco-corruption, I will show the perception index of political parties, the police, public officials, the judiciary, and the military in Mexico as they have appeared to be very corruptive in relation with drug trafficking.

Table 9: Corruption perception Indexes of different sectors

<table>
<thead>
<tr>
<th></th>
<th>Political parties</th>
<th>Police</th>
<th>public officials</th>
<th>Judiciary</th>
<th>Military</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2011</td>
<td>4,4</td>
<td>4,4</td>
<td>4,2</td>
<td>4,3</td>
<td>2,9</td>
</tr>
<tr>
<td>2005</td>
<td>4</td>
<td>3,6</td>
<td>3,7</td>
<td>3,5</td>
<td>2,9</td>
</tr>
<tr>
<td>2004</td>
<td>4</td>
<td>3,6</td>
<td>3,7</td>
<td>3,6</td>
<td>2,9</td>
</tr>
</tbody>
</table>


As table 9 indicates, corruption is perceived in all categories as very corrupt. Therefore, we could suggest that corruption is very present within Mexico’s institutions as stated in the table. Moreover, we might aspect that the mentioned institutions and their highly perceived corruption indexes have corruptive bonds with narco-players.

\textsuperscript{340} Transparancy International. Retrieved 15/06/2012 http://cpi.transparency.org/cpi2011/

3.5.6 Consequences of rent-seeking and corruption as a negative externality
As already mentioned in the section about public interest versus personal interest, corruption should be seen as a negative externality of the illegal drug market. The results of corruption are enormous; corruption reduces investment and damps economic growth. It increases inequality leading to instability and distrust in the public administration and the rule of law. In addition it shifts public expenditure to personal benefit.\(^{342}\) On the contrary, for drug traffickers and bureaucrats corruption could be seen as an individual interest which can serve for personal wealth.

Therefore, rent-seeking in the form of corruption outside the working force of the illicit drug markets reveal additional welfare losses for the society as whole. Whereby only a small group extremely profit from it – drug traffickers and corrupt bureaucrats - at the expense of the society. Moreover, as stated in chapter 2, the more immoral institutions are, the more likely rent-seeking behavior occurs outside the realm of the productive economy. For Mexico this is seen amongst a growing role of drug trafficking and the informal economy within Mexico since the NAFTA. Related to that, the role the institutions play within Mexico make rent-seeking again more likely to occur. In addition, weak public sector institutions are one reason why rent-seeking is widespread, and one indicator of a poorly functioning state is the occurrence of corruption.

To conclude, corruption in Mexico should be seen as an impeder of economic, social and political development. Moreover, as seen in this thesis it disproves the battle against drug trafficking in Mexico; corruption make drug trafficking to a certain extent possible to occur. In addition, corruption needs to be seen as a facilitator of tensions to the relationship of the state, the market, and the society. Thus seen in an IPE perspective, we could state that the ongoing corruption in Mexico reveals state failure which affects the economic, political, and societal structures in Mexico.

3.5.7 The untrustworthy relationship between drug trafficking and policing drug trafficking
As we have seen during this chapter Mexico’s drug trade remained more and less unhindered. The more anti-drug efforts made by the Mexican government to disrupt drug trafficking in Mexico, the more corruption and violence needed to be used to backbone the enforcement

\(^{342}\) ‘Costs & Consequences of Corruption’ World bank. Retrieved 12/04/2012
http://go.worldbank.org/BVKN7C1K60
efforts. The artificially created rents within the illicit market caused by prohibition and stronger law enforcement made rent-seeking in and outside the market more prone to occur. The risen participation within the drug markets and the accompanied competition amongst rivaling drug cartels in Mexico have led to a rise in violence but also to persisting corruption as the anti-corruption efforts did not work and drug related scandals kept occurring.

To conclude, despite anti-drug efforts, drug business is fed by rent-seeking activities such as drug related corruption which again leads to a continuation of drug-trafficking. To make sure, rent-seeking in drug business is a double sided sword which generates more rent-seeking behavior within and outside the working of the market. Shortly, this reveals the untrustworthy relationship between policing drugs and drug business. The prohibition itself makes it prone to rent-seeking. Related to that, the backlashing function of corruption again feeds rent-seeking additionally and impedes the anti-drug polices to work. Therefore, the interplay of drug trafficking; the prohibitions of drug trafficking; anti-efforts; and related corruption should be seen as a negative spiral which rackets additional rent-seeking behavior in the form of corruption and drug trafficking. Consequently, to end this chapter we should ask ourselves the question: ‘Does the chosen political path suits the desirable outcome to stop drug trafficking in Mexico?’ The answer seems rather simple: ‘no it does not’. Despite anti-drug efforts, drug business is fed by rent-seeking activities such as corruption which again leads to a continuation of drug-trafficking and risen violence and corruption in Mexico. What could be the alternative? Get rid of rent-seeking opportunities. On paper rather simple: legalize drugs and end corruption. In reality not happening, since it is not very likely that the U.S. - and probably Mexico- would legalize drugs. In addition, corruption is so deeply intertwined within the Mexican society that it will take huge efforts and development to end it.
3.6 Conclusion
This chapter sought to give an answer to the question: ‘To what extent can we identify general rent-seeking opportunities and corruption in Mexico and in particular those related to drug trafficking in Mexico between 1990 and 2000?’

Rent-seeking activities are widely occurring within Mexico’s political and economic system. Moreover, corruption should be seen as a constant factor within Mexico’s society and formal and informal institutional order. The PRI inheritance has made rent-seeking prone to occur in a way that the PRI stimulated and participated in corruption. In addition, the lack of the rule of law in combination with the informal institutions has made drug business and other criminal business exist in exchange for a share of profits. In order words, the Mexican government under the PRI should be seen as an institution handicapped by self-enrichment opportunities where corruption was endemic. Other aspects of the inheritance of the PRI can be found in state contracts and property rights before the implementation of Mexico’s liberal program. In the 1980s more than a third of the economy was the hands of privileged elites of government monopolies. Altogether, the dysfunctioning institutional order of the PRI and the monopolies positions have created a state dependent system of rent-seeking.

When liberal reforms were implemented in Mexico, a program of privatization was kicked-off in order to backlash the state-owned companies monopolized by privileged elites. This program did not work out as it ought to; the privatizations opened up additional rent-seeking behavior for elites whereby drug trafficking organization also embraced these new rent-seeking opportunities. Another liberal reform was seen in Mexico’s competition law. This competition law and accompanied commission have not reached their goal. Until today, a huge part of the Mexican economy is still in hands of old privileged state and private companies.

This general rent-seeking behavior can also be noticed within drug trafficking and related corruption. The state interventions within the illicit drug markets by prohibition and enforcement created new possibilities for rent-seeking as well. Under the ruling time of the PRI, state connections with drug trafficking organizations were not much of a secret. To the contrary, these arrangements were known under ‘la plaza’ and ‘la copa’ and were driven by corruption and the desire for profit.

Over the years the drug business in Mexico was persistent and the battle against it by policing the drug trade did no led to desired outcomes because of rent-seeking behavior and opportunities. The more state interventions were made, the more incentives were created to get involved with drug trafficking due to increasing rents caused by enforcement.
beginning of the 1990s only four cartels were operating in Mexico’s drug markets, nowadays there are at least seven participating within the illegal markets. The new entrants on the drug markets have led to more competition, corruption and more violence as at the same time enforcement within the markets increased. Moreover, drug prices and profits seemed to decline due to risen participation in the illicit markets (and a fall in demand for marijuana), this occurrence can be explained by the profit paradox. On the contrary during Calderóns’ ‘war on drugs’ drug prices and production of heroin and marijuana increased due to the more lucrative character caused by law enforcement and military interventions and shortage in the U.S. cocaine market.

Corruption as a form of rent-seeking, has flourished over the Mexican drug control struggles. In a similar vein, the more anti-drug efforts made by the Mexican government to disrupt drug trafficking in Mexico, the more corruption was used to backbone the enforcement efforts. In another way the narco-dollars have served as an additional income for many civil servants, law enforces and other state officials. Moreover in general corruption could be seen as a standard occurrence in Mexico’s society.

When president Calderón declared the war against the drug cartels, violence has shifted gears within Mexico. Moreover, corruption remained one major impedes towards the battle to stop drug trafficking within Mexico. Despite this law enforcement, currently the final assessment of the Mexican drug trade remains more or less unhindered. The net outcome of rent-seeking within and outside the illegal drug markets reveals a welfare loss for the society as a whole. These welfare losses are found amongst violence and corruption. The other side of the cone reveals the huge profits and bribes for only a few -drug traffickers and others-involved with the business of drugs at the expense of the Mexican society.

The interplay between rent-seeking within and outside the market reveal an untrustworthy relationship between policing drugs and drug trafficking. The prohibition as it self and law enforcement make the drug markets prone to rent-seeking. Related to that, the backlashing function of corruption again feeds rent-seeking and impedes the anti-drug polices to work. Therefore, rent-seeking in drug business is a double sided sword which generates more rent-seeking behavior within and outside the working of the market.
Conclusion

This thesis dealt with a severe global problem in the academic field of International Political Economy; illicit drug trafficking from one state towards another and accompanied tensions in the interplay between states, markets, and societies. The illegal drug trade needs to be seen as a gloomy outlook in our interdepended world. The clandestine counterpart of IPE: the Illicit Political economy (IIPE) has been fruitful to tackle the occurrence of illegal drug trade as IIPE focuses on illegal international markets, states, and societies. Therefore in this in depth investigation to the ‘dark side’ of our globalized world seen in the Mexican case study, is found an answer to the question: ‘To what extent can the untrustworthy relationship between drug business and business of policing drugs in Mexico between 1990 and 2012 be explained by rent-seeking?’

In Mexico, rent-seeking behavior can be traced back a long time ago. Corruptions as a form of rent-seeking could already be witnessed during the Spanish colonialism, where personal enrichment and corruptions were widely habituated. In addition, the Institutional Revolutionary Party (PRI), that ruled Mexico from 1929-until 2000, has created an exemplary political culture and practice of policies with politicians who not only looked for positions of power and prestige, but who also sought opportunities for private enrichment. This behavior has led to a denial of internal democracy, corruption, pragmatism, patronage, and corporatism in Mexico which underpinned Mexico’s drug business.

Mexico’s increasing role in the drug industry can be found amongst numerous factors that have contributed to the enlargement of connections among criminal networks and to the increase of incentives for trafficking, violence and corruption in Mexico. Amongst those factors is Mexico’s geographic position as a neighbour to the U.S. due to a demand and supply rhetoric. The birth of this rhetoric can be traced back to the Mexican revolution, where only at the north-side of the U.S.-Mexican border drugs were prohibited by law. When in 1920 and 1929, respectively marijuana and poppy cultivation became prohibited in Mexico, illegal drug trafficking had already started. This drug trafficking under the PRI, was just a profitable occupational for state officials. Corruption under the state, military and police seemed to play an antagonistic role in the drug trade back then, but also still nowadays. The more anti-drug efforts made by the Mexican government to disrupt drug trafficking in Mexico, the more corruption was used to backbone the enforcement efforts; the artificially created rents within the illicit market caused by prohibition made rent-seeking in the form of corruption behavior prone to occur.
Another factor, that has helped Mexico’s drug trafficking industry to boom, was Mexico’s economic situation: from the seventies, Mexico underwent dramatic economic crises which enlarged the drug industry in Mexico, as more Mexicans got involved in the drug business because of personal economic reasons. In addition, the imposed neoliberal policies and the NAFTA agreement increased the amount of trade and commerce across the U.S.-Mexican border and facilitated the smuggling of large amounts of narcotics. Moreover, the competition law and privatization ratteded general rent-seeking and new opportunities to engage in drug trafficking. Mexico’s competition law was not able to work as it ought to have due to exceptions in Mexico’s constitution which permitted state monopolies to exist and due to the not proper working law enforcement in Mexico. Rent-seeking behavior or monopoly practices therefore could occur under the tutelage of the Mexican government. As a result, nowadays, governmental and private monopolies are still active in a large part of the Mexican economy. Moreover, the implemented privatization did not fit Mexico’s political and economic situation. Namely, economic inequality occurred whereby many of Mexico’s wealthiest families and persons with drugs money ended up as billionaires and controlled major sectors of the Mexican economy that used to be state-owned. Thus, when the liberal reforms generated more rent-seeking opportunities, drug traffickers also profited from those openings seen in Mexico’s banking system.

Therefore, Mexico’s economic and corruptive history, combined with the implementation of liberal policies to backlash state intervention, converted Mexico into a rents-seeking system. As brought forward in this thesis, Mexico’s untrustworthy relationship between drug business and business of policing drugs can clearly be explained by rent-seeking. The rent-seeking framework was used as a comprehensive analytical tool to analyze and address the illegal commodities - cocaine, heroin, and marijuana - and their accompanied huge demand and supply rhetoric in the U.S.-Mexican drug markets. Moreover, the concept of rent-seeking gave understanding to the function of corruption and violence within the illegal markets. Namely corruption and violence need to be seen as negative externalities for the society as whole. On the contrary, for a small group - drug traffickers and collaborators -, corruption and violence paid off as it was used to dissipate monopoly rents.

By focusing on the demand and supply rhetoric combined with prohibition and enforcement within the illegal markets, it can be explained why drug prices rose and declined. At first glance these findings seem contradictory. However, a second look reveals that the interplay between rent-seeking within and outside the market show an untrustworthy
relationship between policing drugs and drug trafficking and touches upon the core problem of the battle against drug trafficking: the prohibitions make monopoly rents to occur, which leads to more market participation and thus to lower prices. Therefore, the prohibition itself and law enforcement make the drug markets prone to rent-seeking. Related to that, the backlashing function of corruption again feeds rent-seeking and impedes the anti-drug polices to work. This occurrence can been determined for Mexico’s situation; under the last ten years of the PRI drug trafficking expanded, while the drug enforcement efforts augmented. Namely, in 1989, after the demise of Gallardo’s organization, four drug cartels stood up and annual drug profits declined from 1991 until 2000. Nowadays at least seven cartels are actively involved with drug trafficking. This occurrence can be explained by the ‘Profit Paradox’: increased enforcement in the form of prohibition and anti-efforts increases the revenue of additional production whereby on the long run increased enforcement can have the reverse result of increasing participation in illegal markets resulting in increased availability and lower prices of the prohibited good.

On the contrary, during 2006-2009, drug prices seemed to increase while flows of drugs to the U.S. have remained more or less unhindered. The rising prices of the drug commodities could be explained by the expanded anti-drug efforts and state interventions seen in the Military expansion, the Mérida initiative, and other special units to combat drug trafficking in Mexico, which made drug trafficking more difficult and thus resulted in higher monopoly rents as the drug prices rose. In other words, the state interventions made additional rent-seeking within the drug markets more prone to occur. - As a consequence, due to the higher drug prices we might expect that participation within the markets will tend to increase and therefore the Profit Paradox could occur again. -

Related to that, the determined rent-seeking within the illegal markets was accompanied by violence and corruption. Corruption, as we have seen was deeply related to drug trafficking and should moreover been seen as special form of rent-seeking in order to earn an additional income. Violence, as a side effect of drug trafficking should be seen as a way to illegally obtain property rights and contracts to obtain or maintain a monopolistic position within the markets. As more and more anti-efforts and law enforcement were implemented within the markets, a clear rise in violence and persisting corruption could be witnessed. From a Public Choice perspective, we could state that rent-seeking in the form of drug trafficking and the related corruption and violence did pay off as profits winded-up in the pockets of only a few at the expense of the Mexican society.
Altogether, rent-seeking within the market (drug trafficking) and rent-seeking outside the market (corruption) made us understand that the chosen political path in Mexico, seen in prohibition and increasing anti-drug efforts, did not lead to the results it ought to have. Moreover, rent-seeking as determined in this thesis revealed state failure within and outside the markets in Mexico caused by economic trans-border activities and corruption. Hence, this rent-seeking framework helped to understand the role that states, markets, drug trafficking organizations, and societies played within anti-drug policies. For the Mexican case, prohibition and anti-efforts made by the Mexican and U.S. governments based on public health and security issues are deeply focusing on cutting off the supply flows of drugs, with the consequence that the demand function is impeding those efforts as drug trafficking becomes more attractive and thus makes rent-seeking within and outside the drug markets prone to occur. This rent-seeking behavior needs to be seen as a battle of interest whereby lobbying for certain rules or certain economic monopoly positions could be obtained by traffickers and state officials in order to prosper their own welfare at the expense of the society.

To conclude, despite anti-drug efforts, drug business is fed by rent-seeking within the market and outside the market; this reveals the untrustworthy relationship between policing drugs and drug business. The prohibition itself makes prone to rent-seeking. Related to that, the backlashing function of corruption again feeds rent-seeking and impedes the anti-drug policies to work. Therefore, the interplay of; drug trafficking; the prohibitions of drug trafficking; rising prices; rising participation; anti-efforts; and related corruption should all be seen as a negative spiral which rackets additional rent-seeking behavior in the form of corruption and drug trafficking. In addition, we could conclude that changes in political structures, economic structures, and societal structures all have reacted towards each other in the Mexican case study in which state failure has become apparent. Namely, the Mexican state, rational actors – seen in bureaucrats, drug traffickers, high officials and civilians-, institutions- seen in law enforcement, the judiciary, the police and the military- and economic interactions – seen in prohibitions, rents, rising market participation, demand and supply- have led to a continuing booming drug business accompanied by corruption and a rise in violence at the expense of the Mexican society. The identified rent-seeking occurrences have brought dampening social, economic and political development in Mexico. Therefore by drawing upon an IIPE and IPE perspective this thesis found comprehensive knowledge about the existence, persistence and consequences of drug trafficking. Only focusing on economics
or politics has clearly not been sufficient. Just the interplay between the market, the illegal market, the state and the society has deeply gathered understanding why drug related tensions occur in Mexico.

Therefore, the Illicit Illegal Political Economy should be seen as a very valuable issue within the academic field of International Political Economy. The implementation of liberal policies and anti-drug policies in Mexico obviously did not work ought as they ought to do. In Mexico, the politics and practice of market criminalization are contradictory with the politics and practice of market-liberalization. Therefore, we must conclude that it is essential to look at global problems from a combined IPE and IIPE perspective in order to deeply comprehend implications from economic, political, and societal structures. Namely, by drawing upon an IPE and IIPE perspective one is able to analyze tensions within the relationship between markets, illegal markets, states, and the societies. Explicitly, by addressing the sharp dissimilarities between the functioning of illegal markets and legal markets seen in property rights, contracts, competition, interest groups, private interest, state interventions, state failure and market failure we gather understanding about tensions in IPE’s tripartite perspective.

Drug trafficking as a global problem is similar complex and closely related to money laundering, human trafficking, prostitution, and illegal firearm trade. These other ‘dark’ side occurrences of our globalized world deserve attention in the academic discipline International Relations because all these aforementioned illegal economic trans-border activities challenge state authority and state control. By taking this into account, I argue that an extra dimension like IIPE would be rather valuable in more IR analyzes and could offer some backbone against the main paradigms which are dissimilar with the ‘dark side’ of our globalized world. This is essential, as many polices and research are based on the main IR theories, but could be counterproductive in some global problems. Therefore, in IR the illicit dimension needs to be taking into account in order to capture a more comprehensive view of our interdepended world and her tensions.
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