



Making Bad Economies: The Poverty of Mexican Drug Cartels

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Some stories say that local economies benefit from cartels in Mexico. But research suggests that the areas most plagued by drug-related violence have seriously suffered economically.

Mexico is facing one of the most violent episodes in its recent history. The country has had over 200,000 drug-related killings since 2006. Last year alone, 29,168 homicides were recorded, [reaching](#) the highest homicide rate over the last 20 years, surpassing the previous historical peak in 2011 when drug cartel violence accounted for nearly half of all national homicides.

Drug cartels have operated in Mexico for well over a century and until not long ago without significant violence occurring. Since 2006, however, when the Mexican government started to actively prosecute cartels with military force, violence has erupted to unseen levels. As the efforts against drug cartels increased, so too did the killings, mostly of drug cartel members, and expansion of cartels into new areas.

Before 2005, drug cartels operated in about 20% of the 2456 municipalities in the country, but by 2010, cartels had [spread](#) to nearly 40%. The dramatic expansion of drug cartels into new territories provides a unique opportunity to assess the immediate socio-economic impact of cartels suddenly moving into new areas which had never previously experienced drug trafficking or drug violence.

Do drug cartels benefit local economies?

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In Mexico, as has been the case in other similar countries afflicted by drug cartels, there is a myth that the cartels benefit the local economies where they operate. After all, Mexican cartels generate substantial profits– an estimated \$6.6 billion in gross revenue annually, just from exporting drugs to the US alone. The high risk of being caught or killed by drug violence has clearly not deterred many from seeing the illicit drug economy as a quick escape out of poverty.

Unlike other research to date, Gutiérrez-Romero and Oviedo (2018) explore the potential benefits that cartels might bring to local economies in Mexico. To disentangle the effects of drug violence and drug trafficking, they first focus on the municipalities that drug cartels moved into for the first time in 2006, or soon afterwards, which *did not* experience any drug-related homicides. These are typically areas where the drug cartels held the full monopoly of the newly “conquered” territory, avoiding confrontations with the authority and other rival cartels.

The areas where cartels managed to operate ‘peacefully’ did not see any benefits in terms of poverty or unemployment levels as these remained unchanged compared to similar areas free of cartels and drug-related homicides. Specifically, extreme poverty, the percentage of the population that does not have enough income to buy a basic food basket, remained at around 30% in those areas affected by cartels. Capability poverty (adding those who cannot cover health and education needs), remained at approximately 40% . Overall, then, these findings contradict the anecdotal storytelling that cartels benefit local economies and help local populations escape poverty and unemployment.

What are the effects of drug-related violence on local economies?

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Gutiérrez-Romero and Oviedo also **estimate** the impact on municipalities where drug cartels moved during around 2006 which *did* experience drug-related homicides. They find drug violence has displaced both poor and rich people, forcing them to move to nearby areas less affected by the violence. Despite this displacement of people, poverty has continued to rise in the areas affected by violence, albeit by a small margin (overall 3% extra to the already high levels of food and capability poverty mentioned above).

Gutiérrez-Romero and Oviedo (2018) also **explore** the impact on industries where it is possible to measure where production is taking place at municipality level. The focus is on manufacturing, one of the biggest industries in Mexico, between 2003 and 2008 – just before the start of the US recession. During that period, the 403 municipalities analysed that were affected by drug-related homicides lost an average of 35% in production versus what could have been the production in these areas had they not been affected by the violence. On a base average of nearly 70 million USD per area, the loss is equivalent to 9.8 billion USD in foregone production across all these areas. As a result, these areas also lost what would have been around 51% in profits, about 17% reduction in the number of workers and an 11% reduction in salaries.

Drug violence has irredeemably brought suffering and socio-economic costs. However, the effects of violence have not been shared evenly. The areas analysed with the highest rates of drug-related homicides, mostly located in northern states such as Chihuahua, Sonora, and by the Pacific, Guerrero, Michoacán and Oaxaca, saw much bigger losses. On average, profits **dropped** by 181% versus what the profits would have been in these areas had they not been affected by the violence. Similarly, the number of workers **fell** by 28%, salaries dropped by 20% and the number of

establishments in manufacturing saw a reduction of 25% if compared to other areas not affected by drug-violence.

Interestingly, areas where cartels moved in without experiencing drug-related killings did not suffer any change in production, profits or the number of establishments in manufacturing if compared to similar areas free of cartels and drug-violence. However, salaries in manufacturing declined by about 14%. These findings suggest the presence of cartels (even without drug-violence), might lead to an increase in the cost of production and the reduction in salaries, perhaps in anticipation of cartels extorting businesses.

What are the consequences of cartels moving out of local areas?

Mexico's war on drugs policy scattered cartels into many new areas, but as a result some cartels also moved out of some areas and ceased or displaced their operations elsewhere. In a parallel research project, Gutiérrez-Romero (2016) found that in municipalities where drug cartels moved out in 2006, or soon after, there were reductions in crime as large as 50%. Residents in these areas also felt safer and reported less drug-selling in their communities once cartels moved out.

Conclusion

Overall, these findings suggest that despite some Mexican drug cartels generating substantial profits, these organisations are not benefiting the local economies where they operate. On the contrary, there are substantial costs once cartels move into new areas.

Although we have now a much better understanding about how dynamic drug cartels are in terms of their strategic movement into and out of areas, more

research is needed on finding more efficient ways to tackle drug violence and the endemic corruption and impunity that has allowed cartels to spread in the country.

Mexico will hold its next presidential elections in 2018. The reshuffle of political players is likely to increase drug related violence as cartels will seek new alliances. The new president will soon need to define the country's posture on drug trafficking. Should cartels be tackled with the same doomed efforts as the previous two administrations, or should new strategies be adopted? The decision that the new president takes will have profound socio-economic consequences for local economies and the future of the country.

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