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Explaining the Science of Everyday Life



January 7, 2010, 12:50 pm

From Cartel to Corporation: Drug Trade Economics

By [MARC LACEY](#)

Reuters Federal police patrol an impoverished neighborhood in the border city of Ciudad Juarez.



Two prosperous business executives sat across a desk from each other a few months back in [Ciudad Juarez](#), a violence-wracked Mexican town not far from El Paso, engaging in an intense negotiation. The man proposed a price of 4,000 pesos. The woman insisted she could not afford that much. How about 2,500?

A deal was struck, and the man, an extortionist linked to one of Mexico's notorious drug trafficking organizations, the Juarez Cartel, quickly got up and left. Trembling and wiping away tears as she recounted the shakedown, the woman said she now delivers an envelope to the cartel every week containing thousands of dollars — 2,500 pesos, or about \$200, for each of the businesses that her family operates in this city that has become ground zero in Mexico's drug war.

"It makes me sick that I'm essentially in business with these guys," said the businesswoman, who insisted that her name not be printed out of fear that the extortionists would retaliate.

The cartels are corporations as well as criminal enterprises.

Illegal drugs still make up the bulk of the Mexican cartels' business, bringing in billions of dollars a year. But the drug cartels respond to market conditions just like other businesses, and — in economic speak — interruptions in their supply chain and the rising cost of sales have pushed them to diversify their business to improve their cash flow and solidify their hold over crucial delivery routes.

"We're fighting the cartels and it's harder for them to move their drugs," explained Enrique Torres, a spokesman for the joint military-police anti-drug operation in Ciudad Juarez. "So they're moving to other activities."

An army counternarcotics patrol in [Reynosa](#), a Mexican border town across from McAllen, Tex., spends only part of its time on the lookout for drugs, guns and money. The army one night raided a house, where armed drug enforcers known as the [Zetas](#) were holding scores of Central American migrants en route to the United States

while they pressured their relatives for ransom. The patrol seized vehicles used by traffickers, many stolen from across the border in Texas. And it guarded oil installations owned by the Mexican government, since Zetas have been known to break in late at night, steal oil and use forged import documents to get it across the border.

“This is all part of the fight,” said Col. Juan José Gómez, a member of the Eighth Military zone in Reynosa.

The new ventures reinforce that the cartels are corporations as well as criminal enterprises, a point that authorities say becomes clearer as they study the organizational structures and inner workings of the groups.

“You have the C.E.O. and you have the board of directors,” said Jesse Guillen, a former prosecutor in Laredo, Tex., who has prosecuted cases against the Zetas. “They have individuals who are their muscle, the front line guys. Then they have special ops. There are professionals too, white-collar people helping out with accounting and law.”

In recently filed indictments of top cartel leaders in the United States, federal prosecutors referred to Vicente Carrillo Fuentes, founder of the Juarez Cartel, as occupying “a supervisory and management position” in the cartel and as being the “principal administrator, organizer and leader” of the criminal enterprise that brought in millions of dollars in “gross receipts” over one year from trafficking cocaine.

“When you see these crime syndicates going into other ventures, you start talking about ‘diversification,’ ” said Lucinda Vargas, a former economist at the Federal Reserve Bank who now runs Strategic Plan of Juarez, a community redevelopment effort. “They have the ‘comparative advantage,’ and ‘out-equip’ the competition. They have ‘economies of scale’ and a ‘market.’ They are illegal and cruel but they are behaving with an economic rationale.”

One who understands that better than most is [Chris Heifner](#), a community college economics professor who once smuggled drugs from southern Texas to cities further north and delivered proceeds back to cartel bosses in Juarez.

He says he was arrested in 2000 with a load of marijuana worth \$300,000 in his rental car, and then spent years working as an informant for the Drug Enforcement Administration. Now holder of an M.B.A., a motivational speaker and an economics professor at El Paso Community College, he is working on a book about his experience as a professional who trafficked for a cartel on the side.

“I’ve met many people of all walks of life connected to the business,” he said, indicating that drug traffickers do not always meet the stereotypical view of drug traffickers. “I met one accountant and he had five bodyguards and a caravan of vehicles. He was skinny, about 40 years old. But he was important.”

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1 .
[dcbill](#)

Washington, DC
January 7th, 2010
2:26 pm

These aren't businesses and it's insulting that you characterize their activities in that light. They are armed and dangerous gangs who keep a hierarchy for their activities in extortion, drug dealing, and human trafficking. They are thieves and murderers, not businesspeople.

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2 .
[Anish](#)

Vanocuver, New Jersey
January 7th, 2010
2:43 pm

dcbill,
There are plenty of businesses that are thieves and murderers, from tobacco to chemical companies that are dumping to law firms and insurance companies refusing to pay out legally mandated claims.

Get over your closed minded thinking and realize that the underground economy is just that, an ECONOMY, and when you ban drugs and migration, a black market will arise with far more dangerous implications than it would have had if they had been legalized in some ways.

Not to mention, such economic incentives lead to pathways into our country from the REAL gangs we should be worried about, paranational terrorists.

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3 .
[jd](#)

Brownsville, TX
January 7th, 2010
2:47 pm

What about when they make business owners sign away their entire restaurants, gasoline stations, and stores. They also take away entire businesses with the threat of killing the owner's family or employees.

What about when they make teenagers from the United States traffic drugs and kill people. That's right, they lure American citizens with flashy cars and money in order to make them hit-men and assassins.

What about when almost every person in the border has a family member or a friend that is associated directly with these cartels. What about when they storm into Mexican schools and make all the teachers cash in their paychecks to them.

It's happening on both sides of the border, and the diversification is like a virus with no cure. The cartels live, shop, and play wherever they want.

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4 .
[Me](#)

First
January 7th, 2010
3:22 pm

Sounds like the government agencies that regulate my business. There is one in my office now. haha

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5 .
[julian roberts](#)

Baltimore
January 7th, 2010

3:22 pm

dcbill -- you need to chill out man! You're all high and mighty here but really a business is precisely what these people are; albeit a murderous and thieving one.

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6.

[shawn](#)

nyc

January 7th, 2010

3:22 pm

Business is Business...just cuz big corps cover/compensate their crimes better than these brutal gangs, does not mean big corps aren't hurting, murdering, and taking away homes from normal people.

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7.

[bryan_w_seagondollar](#)

morrisville nc.

January 7th, 2010

3:22 pm

We used to have drug cartels in a america. they were called the Kennedy family. any attempt at prohibition has brought this result. people who don't read history are hamsters in a wheel.

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
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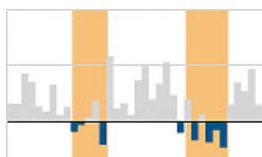
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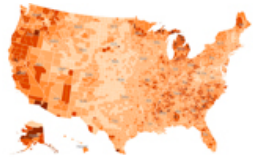
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