Growing in NAFTA’s Shadow: An Examination of Mexico’s Narco-Economy

Poonam Sandhu.

Nov 14th, 2017
Introduction

On January 1st, 1994, the North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States came into effect in an attempt to promote regional trade and mutual economic prosperity. The narrative developed by then-Mexican president Carlos Salinas de Gortari was that NAFTA would transform Mexico into a first-world country. At his MIT commencement address in the spring of 1993, for example, Salinas introduced NAFTA as a “job creating agreement….a wage-increasing agreement….a migration reduction agreement.”¹ However, the idea that NAFTA would propel Mexico into the First World was a naive assumption which did not anticipate the adverse impacts of the neoliberal market reforms that were being consolidated through this agreement. Instead, this essay will argue that NAFTA inadvertently facilitated the rapid growth of the illicit drug economy through its devastation of small-scale agriculture and its failure to provide sustainable economic opportunities in the country’s manufacturing sector. The economic hardships created by NAFTA’s mandate were further aggravated by the Mexican state’s unwillingness to provide adequate protections and social programs for small-scale farmers.

While the factors underlying the development and the prosperity of the drug economy are multidimensional, this essay will only examine the impact of NAFTA and the absence of adequate state sponsored social programs. It posits that NAFTA was not a novel idea, but rather a point of no return in Mexico’s economic restructuring. This essay will first provide key background information on the origins of neoliberal market reforms. Second, it will demonstrate that the devastation of small-scale agriculture and the failure of the state to provide social services to primarily rural farmers ultimately incentivized them to cultivate...
illicit crops such as heroin and marijuana. Consequently, the influence of drug cartels in Mexico deepened. This work concludes by arguing that the manufacturing growth that was promised under NAFTA failed to provide sustainable alternative livelihoods for rural farmers. Instead, the influx of farmers to the Northern region of Mexico provided cartels with the opportunity to recruit job seekers as narco traffickers within the region.

**Background**

Mexico had been experimenting with neoliberal market reforms before NAFTA became a tangible reality. In this essay, neoliberalism is defined as an economic model designed to “increase the GDP through prioritizing exports and freeing the market (liberalization) to attract direct foreign investment and transnational corporations.”\(^2\) Like many other Latin American countries, Mexico did not historically have a culture of neoliberalism prior to the policy changes that were undertaken in response to the economic turmoil of the 1980s. Instead, Mexico had pursued an inward-oriented growth policy since the 1930s, referred to as Import Substitution Industrialization (ISI). This ultimately led the country to manufacture its own goods for domestic consumption in an attempt to “free itself from dependency on foreign markets and offset declining terms of trade.”\(^3\) ISI in Mexico was particularly pursued through “raised tariffs, multiple exchange rates, controlled imports [and] subsidizing domestic manufacturing.”\(^4\) While ISI was initially a success in terms of decreasing Mexican dependency on foreign imports, Mexico’s economy began to stagnate in the 1960s and by 1982, the government declared that it was unable to make payments on its

---

\(^3\) Ibid., 41.
\(^4\) Ibid., 41.
foreign debt, which as of 1981 stood at $84 billion. This major debt crisis, as well as the continued economic downturn in 1985-86, coincided with the rise of a new group of Mexican technocrats who were trained in U.S. institutions and promoted free market economics as an alternative development strategy. Among those technocrats was Carlos Salinas de Gortari who came to power in 1989 and pursued a campaign of rapid trade liberalization and privatization, which ultimately sought to drastically reduce state expenditures. An example of this is Salinas’ acceptance of a “two-stage orthodox IMF prescription” which was the first major step towards Mexico’s neoliberalization. From this perspective, NAFTA was not a completely novel idea but rather an opportunity for Mexico’s ruling elites to consolidate the pre-existing neoliberal market reforms in order to modernize the state.

While modernizing Mexico and deepening preexisting neoliberal reforms was among the Mexican objectives to negotiate NAFTA, the U.S. objectives were primarily related to securing their borders. Just as Salinas had promised that NAFTA would ensure that Mexico “[exported] goods not people,” Bill Clinton affirmed that NAFTA “would eliminate the problem of undocumented Mexican immigration by creating more jobs at higher wages in Mexico.” The formal narrative, however, was that NAFTA would allow Mexico, Canada and the U.S. to mutually prosper. While Clinton highlighted NAFTA as the solution to long term migration issues on the U.S.-Mexico border, he also promised that the trade deal would “[increase] employment in U.S. industries that would take advantage of a prosperous

---

5 Ibid., 115.
6 Ibid., 116.
7 Ibid., 116.
Mexican market.” Underlying the formal narrative was the belief that by creating more jobs at higher wages, Mexicans would be less likely to engage into the U.S. labour market without authorization and abandon illicit economic activities, such as smuggling drugs across the border. This was significant to the Clinton administration as contraband had historically been smuggled into the U.S. from and by way of Mexico. During Prohibition, for example, alcohol was smuggled into the U.S. from Mexico while the post-Prohibition era saw an increase in heroin and marijuana being the key smuggled commodities. However, emphasis on Mexico’s history as a major country of origin and transit point for contraband does not account for the fact that before NAFTA, the U.S. was also smuggling various goods to Mexico such as “color televisions...refrigerators...stolen cars and computers.” Simply put, the drug problem did not appear after the signing of NAFTA. Instead, the porous nature of the U.S.-Mexican border resulted in goods being smuggled in both directions both prior to and following the implementation of the agreement. Nevertheless, the nature of Mexico’s drug economy changed drastically with the introduction of NAFTA.

**NAFTA’s Impact on Mexico’s Agricultural Sector**

Mexico’s agriculture sector has historically been dominated by corn production. Results from the 1990 census show that four years before NAFTA came into effect, approximately 29% of agriculturalists (representing 14% of all workers) were identified as corn workers. Not only were these farmers partially dependent on corn production, but the

---

10 Ibid., 6.
11 Ibid., 6.
13 Ibid., 44.
vast majority of them were poor in comparison to non-agricultural workers.\textsuperscript{16} Dube et al. estimate that 27\% of the agricultural workers report earning zero income, which reflects the fact that many of these individuals typically do unpaid work on family farms.\textsuperscript{17} Regardless of exact figures, Mexican agriculturalists have a long history of cultivating corn in abundance. This extensive history is reflected in the fact that Mexico is often referred to as the “birthplace of corn,” alluding to the fact that the crop originates from central Mexico.\textsuperscript{18} At the same time, small-scale farmers have remained among the poorest sectors of Mexican society and have few transferable skills which are of use in capital-intensive industries.

With trade liberalization encouraged by NAFTA, Mexico’s small-scale agriculture sector suffered immensely. For example, under NAFTA’s mandate of trade liberalization, “tariffs and quotas on agricultural imports, which to an extent protected [Mexican] farmers from foreign competition, were removed.”\textsuperscript{19} Simultaneously, the National Company of Popular Subsistence (CONASUPO), a Mexican Parastatal Enterprise which was previously vested with the responsibility to increase the income of small-scale subsistence farmers, continually removed subsidies to farmers.\textsuperscript{20,21} It is important to note that although fundamental reforms to CONASUPO began a few years prior to NAFTA’s implementation, Yunez-Naude and Barceinas Paredes’ research shows that NAFTA \textit{accelerated} the

\begin{flushleft}
\textsuperscript{16} Ibid., 1189. \\
\textsuperscript{17} Ibid., 1189. \\
\textsuperscript{21} Watt and Zepeda, \textit{Drug War Mexico}, 124.
\end{flushleft}
dismantling of this parastatal in an effort to liberalize trade. This was ultimately detrimental to small-scale farmers.

While Mexico was complying with the tenets of neoliberalism and decreasing state intervention in its agriculture sector, as exemplified by the two aforementioned examples, U.S. capital-intensive agribusiness continued to receive federal support in spite of NAFTA. The decrease of trade barriers by Mexico was juxtaposed by the U.S. increase in mass agricultural subsidies which meant that U.S. products, notably corn, could now be purchased at a lower cost than those produced by domestic farmers. Economist Timothy Wise’s research, indexed and adjusted for inflation, demonstrates that since 1994, Mexico has reduced the value of its subsidy payments by approximately 40% while U.S corn subsidies have been as much as 80% their pre-NAFTA levels. The increase in U.S. subsidies resulted in a massive influx of corn and other crops which were “dumped” in Mexico and sold at a price that at times [was] lower than the cost of production.”

A study conducted by the Wilson Centre demonstrates that from the early 1990s to 2005, U.S. corn exports to Mexico increased by 413% with the overall dumping margin estimated to be 19%. The net effect of U.S. dumping was the reduction of the price of corn that was cultivated by Mexican farmers. The exact value by which the price of corn dropped after NAFTA varies among economists. For example, a study conducted by Avalos-Sartorio suggests “that the provisions of NAFTA...

23 Qtd in: Watt and Zepeda, Drug War Mexico, 124.
24 Timothy Wise, Policy Space for Mexican Maize: Protecting Agro-Biodiversity by Promoting Rural Livelihoods (MA, USA: Tufts University, 2007), 12.
effected a 20% reduction in the [corn] price faced by Mexican producers.”

Peter Watt and Roberto Zepeda, by contrast, suggest that “the price of corn dropped by around 50% following the NAFTA agreement.”

Despite discrepancies between the exact percentage value by which corn prices dropped in the face of U.S. “dumping,” the influx of U.S. corn made it significantly more difficult for small-scale farmers to meet their basic economic needs. This is best exemplified by Wise’s research for the Wilson Centre which argues that during the period 1997-2005, corn producers suffered losses estimated at $6.6 billion (USD) as compared to the aggregate losses for Mexico’s eight largest crop and livestock sectors which were estimated to be $12.8 billion (USD). By demonstrating that corn producers incurred approximately 51% of the total losses between 1997-2005 due to U.S. corn dumping, Wise illuminates the human cost which was endured by farmers in the decade after the agreement was ratified. With corn livelihoods compromised, it is not surprising that approximately 2.3 million jobs were lost in the agricultural sector due to the market reforms promoted under NAFTA. As of 2016, corn remains the top U.S. agricultural export received by Mexico with total corn imports valued at $2,533 (Millions of USD) at the expense of Mexican corn self-sufficiency.

Mexico’s (Non) Response to Agricultural Devastation

The Mexican government’s response to the destruction of farming livelihoods as a result of NAFTA’s trade liberalization mandate was largely inadequate. In October 1993, the Salinas administration implemented PROCAMPO, a fifteen year program designed to

28 Watt and Zepeda, *Drug War Mexico*, 125.
provide direct subsidies for producers of corn and other basic crops who were likely to suffer from NAFTA-related trade competition.\textsuperscript{31} However, as political scientist Peter Andreas notes, the direct subsidy program “primarily served as a limited form of welfare rather than providing the kind of public investment necessary to modernize Mexican agriculture and make-small scale farmers more productive and competitive.”\textsuperscript{32} This was combined with the fact that Mexico did not, and still does not, have unemployment insurance or any social assistance programs for those whose livelihood suffered from trade liberalization.\textsuperscript{33} Overall, attempts to provide social services for small-scale farmers who were affected by NAFTA has been inadequate, if not virtually non-existent.

**A Turn Towards Drug Cultivation and Increased Cartel Activity**

With the agriculture industry devastated by the trade liberalization promoted under NAFTA, compounded by the central government’s inadequate response to the devastation of livelihoods, many Mexican farmers had to find new ways of meeting their basic needs. The two main survival strategies that were adopted in response to NAFTA were migration, mainly to urban centres and the U.S, and engaging in informal activities, such as the illicit drug economy.\textsuperscript{34} It was within this context that many of the small-scale farmers who remained in Mexico turned towards the cultivation of illicit drugs. Unlike basic crops such as corn, coffee and beans which had been predominantly cultivated prior to NAFTA, illicit drugs such as heroin, marijuana and methamphetamines are subject to less price fluctuation


\textsuperscript{33} Laurell, “Three Decades of Neoliberalism in Mexico”, 258.

\textsuperscript{34} Qtd in: Laurell, "Three Decades of Neoliberalism in Mexico," 258.
while their demand in foreign markets (notably the U.S.) remains stable. By 2007, for example, “a kilo of illicit drugs fetched 300 times more than one of [corn] and a kilo of marijuana or poppy was worth more than a ton of beans.” Therefore, it was a rational response for farmers to shift towards cultivating illicit drugs which could provide a stable source of income. The movement towards the cultivation of illicit crops in response to declining corn prices is best illuminated in northern state of Sinaloa which, prior to the implementation of NAFTA, was heavily dependent on the price of corn for their welfare. Today, Sinaloa accounts for approximately 45-48% of all narcotics destined for the U.S. and has suffered from increasing amounts of drug related violence. Between 2006 and 2011, for example, Watt and Zepeda estimate that there were 5,464 narco trafficking related deaths in Sinaloa, making it the second state most impacted by drug related violence during the period examined. It is important to stress that for many Mexican farmers, the movement towards cultivating illicit crops was one of the few solutions to neoliberal reforms and the failure of the state to create substantial social assistance for those who did not benefit from NAFTA.

Not only did drug production expand in Mexico’s more remote regions post-NAFTA but rather, recent research by Dube et al. has found that the entire narco-trafficking chain benefitted as a result of NAFTA. For example, in the same study, Dube et al. shows that cartels are found to be more likely to move into “economically depressed territories where

35 Watt and Zepeda, Drug War Mexico, 166.
36 Ibid., 166.
38 Watt and Zepeda, Drug War Mexico, 212.
39 Ibid., 224.
40 Wise, The Post-NAFTA Political Economy, 211.
41 Dube et al., “From Maize to Haze,” 1205.
farmers are willing to supply illicit crops.”42 It is important to note however, that cartels did not suddenly appeared when neoliberal reforms were being consolidated. Nevertheless, NAFTA policies and their aftermath allowed drug cartels to grow and also influenced their behaviour. Had the Mexican state’s social programs been more robust and committed not only to meeting the basic needs for farmers but also providing sustainable alternative livelihoods, perhaps the rise of the cartels could have been somewhat mitigated. However, in the absence of state programs to protect farmers and promote alternative livelihoods, NAFTA provided cartels with the ripe moment to expand their networks. The final result was the deepening of ‘drug-as-industry.’ This hindered the licit Mexican ‘modernization through industrialization’ economic strategy that NAFTA was designed to facilitate.

The Maquiladora Industry and Cartel Recruitment

One of NAFTA’s most echoed promises was that it would increase employment opportunities in Mexico’s manufacturing sector in order to discourage immigration to the U.S. and engagement in illicit economic activities. As a consequence of declining corn prices, many of the farmers who did not emigrate to the U.S. were forced to abandon their land and seek work in maquiladoras, or foreign-owned plants, located primarily on the U.S.-Mexico border.43 The maquiladora industry had been growing since the implementation of neoliberal reforms, which is reflected in the fact that from 1980 to 1997, the maquiladora share of national manufacturing employment in Mexico rose from 5.6% to 25.1%.44 However, the long term increase in maquiladora employment was smaller than anticipated: from 1993 to

42 Ibid., 1183.
43 Mercille, "Violent Narco-Cartels Or US Hegemony?,” 1642.
2013 there was a net increase of only about 400,000 jobs.\textsuperscript{45} This is in part due to the fact that a majority of the exported final goods were assembled from intermediate goods which were imported from foreign markets.\textsuperscript{46} Political sociologist John Ackerman argues that development left at the \textit{maquiladora} industry level, in conjunction with little emphasis on the development of national industry, made Mexico a subordinate economic partner in relation to the U.S.\textsuperscript{47} Overall, the \textit{maquiladora} industry did not promote the type of sustainable economic development that was needed in Mexico and promised by NAFTA.

However, as thousands of unemployed farmers migrated to Northern Mexico throughout the 1990s in search of work, an opportunity arose for the cartels to recruit from this newly arrived labour pool.\textsuperscript{48} With female labourers preferred in the apparel and electronics plants, there was a large surplus of men who were either underemployed or unemployed.\textsuperscript{49} For the cartels that were already operating in northern Mexico, NAFTA provided a new opportunity to recruit and kidnap vulnerable unemployed workers who would facilitate the smuggling of their final products to the U.S.\textsuperscript{50} Mexican sociologist Luis Astorga, for example, recounts that by the mid 1980s, traffickers were already recruiting workers to engage in what was referred to as “apple picking,” or drug smuggling.\textsuperscript{51} According to Watt and Zepeda, traffickers would drive around in trucks and announce that workers could earn “between four and five thousand pesos per day” as compared to the

\textsuperscript{45} Blecker, ”The Mexican and U.S. Economies,” 14.
\textsuperscript{46} Ibid., 15.
\textsuperscript{48} Watt and Zepeda, Drug War Mexico, 160.
\textsuperscript{49} Ibid., 160.
\textsuperscript{50} Ibid., 161.
\textsuperscript{51} Ibid., 79.
relatively low wages that they were making in manufacturing.\textsuperscript{52} While it is evident that the cartels began recruiting before NAFTA came into effect, the rural to urban migration, primarily from southern to northern Mexico, provided a larger material base for cartels to recruit smugglers who further contributed to the expansion of the drug economy.

Nevertheless, it was not only unemployed \textit{maquiladora} job seekers who were vulnerable to cartel recruitment. Poor working conditions and consistently low wages within the \textit{maquiladora} industry meant that even those who were employed were likely to be attractive targets for recruitment by cartels. Following the 1982 debt crisis, Mexico relaxed restrictions on \textit{maquiladoras} in an effort to attract foreign direct investment (FDI) and induce growth.\textsuperscript{53} This meant that foreign-plant owners were now able to employ workers at relatively lower wages to work long hours under poor conditions. Official data suggests that in the decade after NAFTA came into effect (1994 to 2004), the minimum wage decreased by 26\%.\textsuperscript{54} The reality of deteriorating wages and working conditions was another aspect of NAFTA reforms from which cartels were able to profit. With the prospect of superior wages, it is rational that many \textit{maquiladora} workers were more easily inclined to join the illicit economy. This is reflected in the fact that according to the national employment survey, approximately “58\% of the economically active population was employed in the informal sector in 2014.”\textsuperscript{55}

Overall, evidence suggests that the economic growth promised by NAFTA fell short in the \textit{maquiladora} industry, which primarily served U.S. markets, and added very little value to Mexico’s domestic market. Underemployment and unemployment caused by the lack of

\textsuperscript{52} Ibid., 79.
\textsuperscript{53} Hanson, “What Has Happened to Wages in Mexico Since NAFTA?,” 4.
\textsuperscript{54} Qtd in Laurell, “Three Decades of Neoliberalism in Mexico,” 258.
\textsuperscript{55} Ibid., 258.
opportunities in the manufacturing sector provided cartels with the material base to recruit smugglers in order to expand their presence. For those who were now engaged in the illicit economy out of desperation, the promise of rapid modernization under NAFTA had clearly failed.

**Conclusion**

While NAFTA was designed to propel Mexico into the First World, its results have been to inadvertently promote the growth of the illicit drug economy. NAFTA’s effect on the agriculture industry, coupled with the inadequate state response to rapid trade liberalization, ultimately led to increased drug cultivation and cartel activity. The country’s manufacturing sector, by contrast, failed to deliver the employment opportunities it promised and instead reinforced Mexico’s subordinate position in relation to trade with the U.S.

Despite NAFTA’s failures, Mexican political elites since Salinas have continuously praised NAFTA and perceived the country’s drug problem as one of greed rather than genuine economic grievance caused by failed neoliberal policies. This is exemplified by former Mexican president Felipe Calderon’s declaration of the War on Drugs, which began in 2006 and has radically increased the levels of violence throughout regions in which cartels operate. The demonization of those involved in the drug economy has provided little impetus for a deeper examination of the structural conditions which have allowed the narco-economy to prosper. This paper has served as a critical interruption to the notion that Mexico, as a whole, has gained from NAFTA. Any growth that has been created by NAFTA has come at the expense of Mexican farmers and the establishment of independent Mexican industry. The critical disconnect between the ruling class and Mexico’s non-elites created the illusion that NAFTA would transform the Mexican economy overnight. For some, this has held true. For others, such as corn farmers, NAFTA never stood the chance of propelling *them* into the First World.
Works Cited


