

Drug Market in Mexico and its Economic Impact: Stylized Facts, Reasons and Solutions

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Abstract. The illicit drug market in Mexico has been a major problem due to its impact in the sociological point of view. Researches in this paper states evidence for the factors (bureaucracy, gun trafficking, income inequality etc.) that deteriorated this problem, causing negative socioeconomical impact with an increase in drug-related crime rate (homicide, kidnapping, money laundering), and other relative consequences like the increases in net migration outflow, causing decreases in labor market, further decreasing the GDP and effecting the economy. The main problem found during research is the bureaucracy, which means the inner part of the political system in Mexico, remains chaotic with the interference of drug cartels. Further involving in the corruption of official economic organizations. So for the suggestion to fix this problem is basically based on fixing the political system, and seeking help from USA by reinforcing the border defense (cutting down the trafficking route of drugs and weapons) and strengthening the Marina army (anti-cartel army in Mexico) to suppress drug cartels.

Keywords: Mexican Cartels, Illicit drugs problem, Drug-related crime, Government failure.

1. Introduction

The amount of illicit drugs (Opioids, Cannabis, Methamphetamine, Cocaine etc.) imported to the global society has been rapidly increasing these years. According to the data published by UNODC, Cannabis has been the highest illicit drug supplied with approximately 225,000 thousands of consumptions.

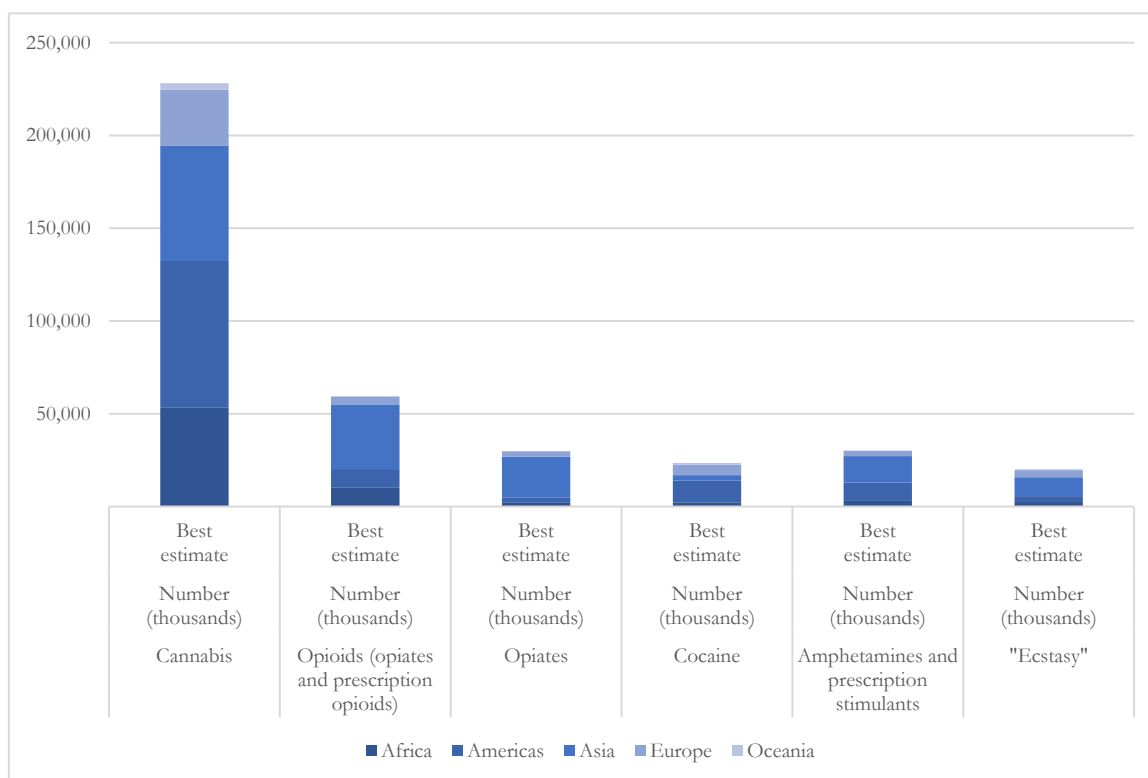


Figure 1. Annual prevalence of the use of cannabis, cocaine, opioids, opiates, amphetamine-type stimulants and "ecstasy" in the population aged 15-64, by region and globally, 2022

Source: UNODC

As the side effect of drugs (such as hallucination, heart attack, skin infection etc.) hits the group of victims, chances are that the victim will either attack other civilians because of hallucinations, or they will suffer to death because of excessive use.

Illicit drugs have strong addictiveness and it's popular between young teenagers, which drives the demand of drugs into a high level. As the consumption of drug increases, the negative externalities impact the global society in both the economical and sociological way.

In the point of sociology, criminal procedure reforms aimed at improving due process are not sufficient for deterring homicide in places where non-state actors (i.e. drug cartels) effectively challenge the state's monopoly of violence. **(Huebert, 2019)**.

Which as the reference of homicide in sociology, for economic impacts, **Bel and Holst (2018)** finds that while the growth in the number of homicides had negative and significant effects on state GDP growth, state military expenditures aimed at fighting drug trafficking had a positive and significant effect on the per capita economic growth rate.

According to **Lu (2019)**, These drugs are mainly produced from 4 areas, The Golden Triangle Area (Myanmar, Thailand, Laos), The Grey Triangle Area (Latin American, Ecuador, Bolivia, Peru), The Black Triangle Area (African West Guinea Gulf) and The Golden Crescent Area (Afghanistan, Pakistan, Iran). The similarities of these producing areas are that they are all located near the equator, they have enough sunlight, appropriate temperature and high humidity, which is good for planting and producing drugs **(Medel and Lu, 2014)**.

But the drug producing area we will be talking about in this paper is not only the largest supplier of USA's drug market, the largest drug supplier followed by Golden Triangle area and Afghanistan, but also one of the most violent drug country with high homicidal rate, high drug outputs **(Lu and Yan, 2013)**, The United "Mexico" States (Los Estados Unidos Mexicanos).

Mexico has been one of the major country of drug cultivation and production. The collaboration between the drug cartels and political members causes bureaucracy, poverty rate remains high, and the geographical nature and climate of Mexico both promoted the formation of drug problem and its deterioration. **(Ding, 2016)**

It is an outstanding representative country amongst all other drug producing areas because of its history of the develop of drug market between Mexico and USA, and the drug wars between cartels and government. The homicidal rate is high and rapidly increasing **(Li, 2023)**, the brutality of the Mexican cartels is also incredibly intense **(Huebert, 2019)**, which is a major impact for local residents (too scared to be living in Mexico). Therefore, the migration rate and export rate of drugs are also very high. According to **Yuan (2016)**, Mexico is currently the second largest net outflow country of immigrants in the world, with the vast majority of its overseas immigrants going to the United States. Among them, about half of the immigrants in the United States are illegal immigrants. The majority of Mexican immigrants in the United States have low cultural levels and low socioeconomic status. Which affects not only local Mexican but also nearby countries such as USA.

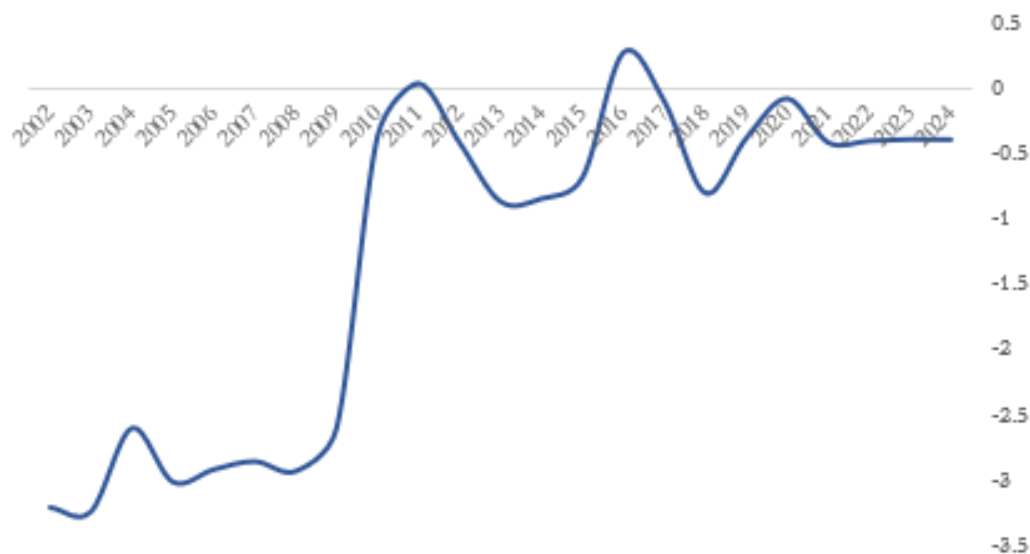


Figure 2. Net migration rate (per 1,000 population)

Source: UNData

The drug market of Mexico did not develop in a short period of time, back the mid stage of 20th century, that's when the farmers found out the benefits of planting drugs is way higher than planting crops, when the large group of farmers starts planting drugs, it leads to a major increase in supplying, which causes a surplus. By then, the competition between drug organization starts.

The Partido Revolucionario Institucional (Institutional Revolution Party) has been sheltering drug organizations, which then causes the drug organizations starts to develop to larger drug cartels, but at least back then, they focus more on the trading of drugs back then, not violence. 2000, the Partido Revolucionario Institucional collapsed, which took the Partido Acción Nacional (National Action Party) 12 years to cut the sheltering relationship between drug cartels and Partido Revolucionario Institucional. Then, under the support of USA government, the Partido Acción Nacional tries to start a drug war in order to completely solve the drug problem by eliminating the drug related cartels. But it did not work out, instead, it got worse. The major drug cartels starts to split into smaller pieces, and the violence of them rapidly increases after 2007. As the scale of the cartel increases, they start importing weapons from USA. And as the force of the cartels increases, things start to get out of Partido Acción Nacional's control. 2012, the Partido Revolucionario Institucional reconquers the governmental power, but by then, it's already too late to rebuilt the sheltering policy, and even worse, they got stuck between the problem of drugs and violence.

From 2006 to 2018, 200000 peoples in Mexico lost their lives due to drug violence. 24 out of 32 states in Mexico are threatened by drug violence. In 2017, organized crime in Mexico reached its peak, with 29000 people murdered. In the 2017-2018 local and parliamentary elections in Mexico, 114 candidates were murdered by drug trafficking organizations (Lu, 2019)

2019 in Trasiaco City, Oaxaca State, the new mayor got attacked by drug cartels and shot to death immediately one hour after the inauguration ceremony. According to Shi and Yang (2019), the assassination of political members is not a rare thing to happen in Mexico, during 2018's president election, at least 132 political members are found killed, which 48 of them are the candidate of the new president.

According to Nevárez-Sida et al. (2021). In Mexico, illegal drug consumption sometime in a lifetime has increased systematically, according to population surveys from 2002 to 2016, and it is the same case for drug consumption in the last year. The illegal drug consumption in population 12–65 years old increased from 4.6 in 2002, to 5.2 in 2008, 7.2 in 2011, and 9.9 in 2016,3 with the associated upsurge in health and behavioral problems.

In Mexico, the drug problem remains unsolved, with the dereliction of government, the overruling of cartels and the conflict between them, violence rapidly increases, negatively implicating the migration rate and GDP, causing a major social problem (Lu, 2019). In my opinion, the main problem

that impacts the global is the exportation of illicit drugs, “border defense” might be one of the main factor to decrease the illicit drugs trafficking.

This article mainly focus on the Homicidal from drug war, Health of the consuming victims and Economical impacts from drugs, based on the political problem of bureaucracy, improper governmental management and the history of Mexico’s Drug Market between USA and Pardino Revolucionario Institucional. I will also be giving a recommended solution for solving this problem.

2. Why is the scale of Drug Market in Mexico that big?

2.1. Historic Reason

USA and Mexico are two of the main countries in North America, adjacent to each other. With a border for about 3340 km long. This border is formed after the Mexican American war between 1846-1848. During this war, Mexico lost nearly about half of their territories, therefore, the seeds of hatred towards Americans are planted within Mexican’s heart. It’s been around 160 years since now, as time passes by, the two sides of the border, one developed fast and became richer (USA), while another still suffers from poverty (Mexico). That causes the seeds of hatred towards USA has slowly grown into a higher level. And that the border has become a “death line” where a lot of conflicts and brutalities occurs between these two countries. (Rou, 2010)

According to Lu (2019), In the 20th century, the Institutional Revolutionary Party monopolized the Mexican government and formed "sheltering relationship" with local drug trafficking organizations. The drug traders has slowly developed from “family running” local drug trafficking organizations into larger drug cartels that controlled drug production and trading. They mainly focused on drug production and trade. Back then, they did not have strong violent tendencies. In 2000, the Revolutionary Institutional Party collapsed, and the National Action Party broke the protective relationship between local governments and drug cartels during its 12 years of ruling. With the support of the United States, it started a drug war, trying to completely solve the drug problem. This directly leads to the division of larger cartels into smaller and discrete cartels, aggravating the violence of drug trafficking, further causing serious social violence problems. In 2012, the Institutional Revolutionary Party returned to the center of power but was unable to rebuild its sheltering system. Instead, it was caught in a difficult position of drug control and violence prevention, and ultimately continued the policy of using force to restrain drugs, causing drug violence in Mexico to reach a historical climax.

1929 as the base point, when the national government are formed. Mexico’s social has always been facing the problem of “Strong country, weak society” or “Strong society, weak country” (Chen and Chen, 2024). In 2018, leftist leader Obrador was elected president with unprecedented support since Mexico's democratization, suggesting a completely different drug policy. He aims to reduce drug violence and achieve social reconciliation, in order to lower crime rates through measures such as abandoning the drug war, decriminalizing drugs, and promoting socioeconomic reforms (Lu, 2019).

According to Bunker (2013), within three decades, the Mexican Cartels has developed from small and simple drug trafficking families situated in main transshipment cities into drug cartels of larger regional areas, as the annual revenue of about ten billions has received, the disciplines of those cartels rises and evolutes.

Overviewing the historical timeline of Mexico, the border has become the main area for drug trading, where the major factor that promoted the development of drug market is the political problem and the broken “sheltering” relationship between drug cartels and the governments.

2.2. Inequality Problem

Income inequality is a main reason that causes the crime rate to increase, which in this case, it’s the drug-related crime. According to Reyes et al. (2017), The Mexican economy, as historically one of the most unequal regions in the world, has become more unequal. Recent studies on Mexico’s inequality shows the evidence of underestimation of income that has been growing since the 1990s.

And according to the 2004 data, there was 2.5 times more underestimation of income reported 2004 in household surveys, and for 2014, the rate of underestimation raised to almost 4 times. Adjustment also shows that the absolute gaps between the poorest decile and the richest decile have continues to be widened, it widened 122% for general household income. Wage inequality is an important factor that could influence the general inequality but is less important than the intracompany inequality. The lower average wages are estimated in approximately 2420 times lower than the highest. And in deeper, the inequality of Mexico links to a growth in poverty, leading to propose an agenda for the country that brings economic initiatives together rather than just carrying them out in an isolated manner.

2.3. Government Regulation

The border between Mexico and USA became the weakest border defense system as the trading of drugs between Mexico (supply side) and USA (demand side) became rampant. The drug cartels has caused long-term negative consequences in many different point of views towards the society. Invading the government and forming barriers for political system to circulate normally. Murdering and causing safety threat towards the government members. It's not simply a public safety problem, but a major threat of a whole country (**Ji, 2013**). Mexican government had always used the military intervention as the method of drugs elimination, but unfortunately, under the problem of bureaucracy and the lack of strict laws, the results of government intervention remain insignificant. (**Wu, 2018**)

The problem of bureaucracy (the alliance relationship between drug cartels and Mexico governments) is one of the main reasons that causes Mexico's drug problem unsolved. According to **Gibler (2021)**, On the night of September 26, 2014, located in Iguala, 43 students from the Rural Teachers College of Ayotzinapa disappeared forcibly after a brutal attack mistakenly made by the police. After this incidence, local government made up a story to hide the truth, which is the following: The students were in a local political protesting event, then the police confused the students with local drug cartel members. After that, they turned the students over to another cartel, then the cartel members drove the students towards the Cocula trash dump 15 miles away from Iguala, murdered them, and used the flames to burn down the dead corpses, then dumped the bone-ashes of the students into the San Juan River. But the real story is that there is no evidence that the students is turned into the members of the cartels, and that the students are with the local police during the whole time, the relationship between the police included in this incident, drug cartels and even the "Inside jobs" remains unknown. Hence, the deaths of 43 students foreshadows the darkness of Mexican bureaucracy problem. (**Gibler, 2021**)

This paper will be using the example of Mexican cocaine market to show how democracy policy of Mexico failed the government coordination towards the drug control. According to **Rios (2015)** the empirical findings and the narrative account states that in Mexico, party heterogeneity has caused governments to lose grip on organized crime activities. And the qualitative evidence points out that the security policy coordination is an important variable. When the governments level are headed by the same or similar activities, coordination is easier for government because of ideologies, electoral incentives, and, given corruption, acquisitive incentives are aligned. So in contraction, heterogeneity set barriers for the intervention and negotiation between governments, has made the sharing of information difficult, and further destroys the consistency between them. Promoting the inconsistent and bureaucratic development between different level of governments. Further research is needed for the specific mechanism.

According to **Jones (2013)**, the kingpin (targeting the top levels of drug trafficking organization hierarchies) strategy has played an important role in the counter-terror policy in both US and Mexico. Positive effect are brought by this method, for example, the decreasing in rate of homicide and kidnapping. But while they are highly effective in disrupting the drug trafficking organizations, other negative consequences might be caused.

2.4. Demand

USA is the biggest consumption country of Mexico’s drug output, according to **Valdez et al. (1998)**, the magnitude and nature of the transformant of prescription drugs from legal market to illicit market has become the top priority for the federal government. Especially amongst the teenagers’ group, the abusing and misusing of prescription drugs should be responsible for “abuse liability”. And after the correction of law from the federal governments, the United States citizens are required for the prescription from Mexico side before declaring any drugs brought into the border.

Shown in the Figure 3 published by UNODC, Cannabis has been the largest magnitude of drugs consumed in USA, with approximately total of 26.62, followed by Opioids, Prescription opioids, Cocaine.

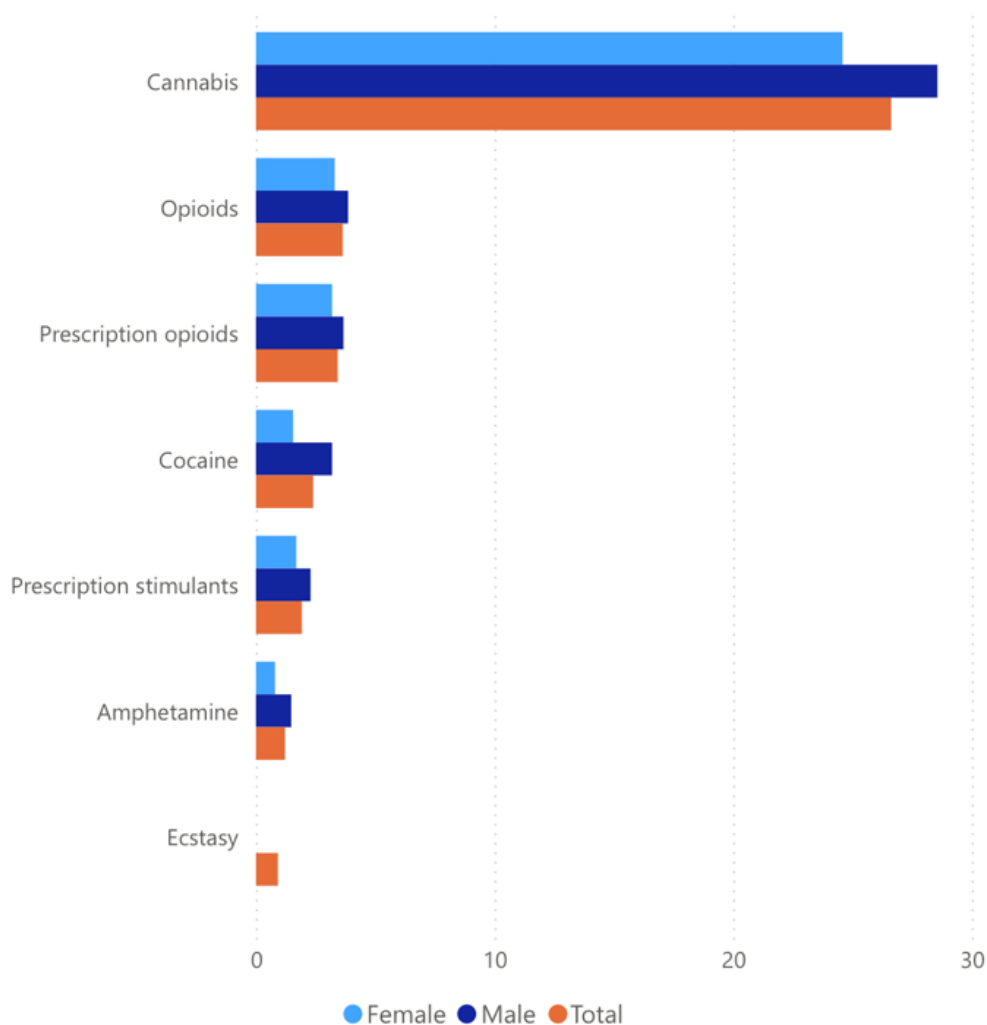


Figure 3. Prevalence of Drug Use in the General Population of USA in 2022

Source: UNODC

The illicit drugs in the local Mexico had become a public health problem due to the constant grow of consumption. The drugs that’s the major consumption within locals are marijuana and cocaine, and within the students’ group (Teenagers), the illicit drugs with more consumption in lifetime was marijuana with 10.6%, inhalants at 5.8%, and cocaine powder with 3.3%. Factors with the probabilities of drug use and consumptions are gender, ethnicity and socioeconomic status. And the main policy maker sectors (Health sector, Education sectors, public security sectors) are called to act. (**Nevárez-Sida et al. 2022**)

Shown in the Figure 4 published by UNODC, Cannabis is the mostly consumed drugs in Mexico with approximately the prevalence of 2.1, and a maximum of 2.3 and minimum of 1.9, followed by Cocaine, Prescription opioids.

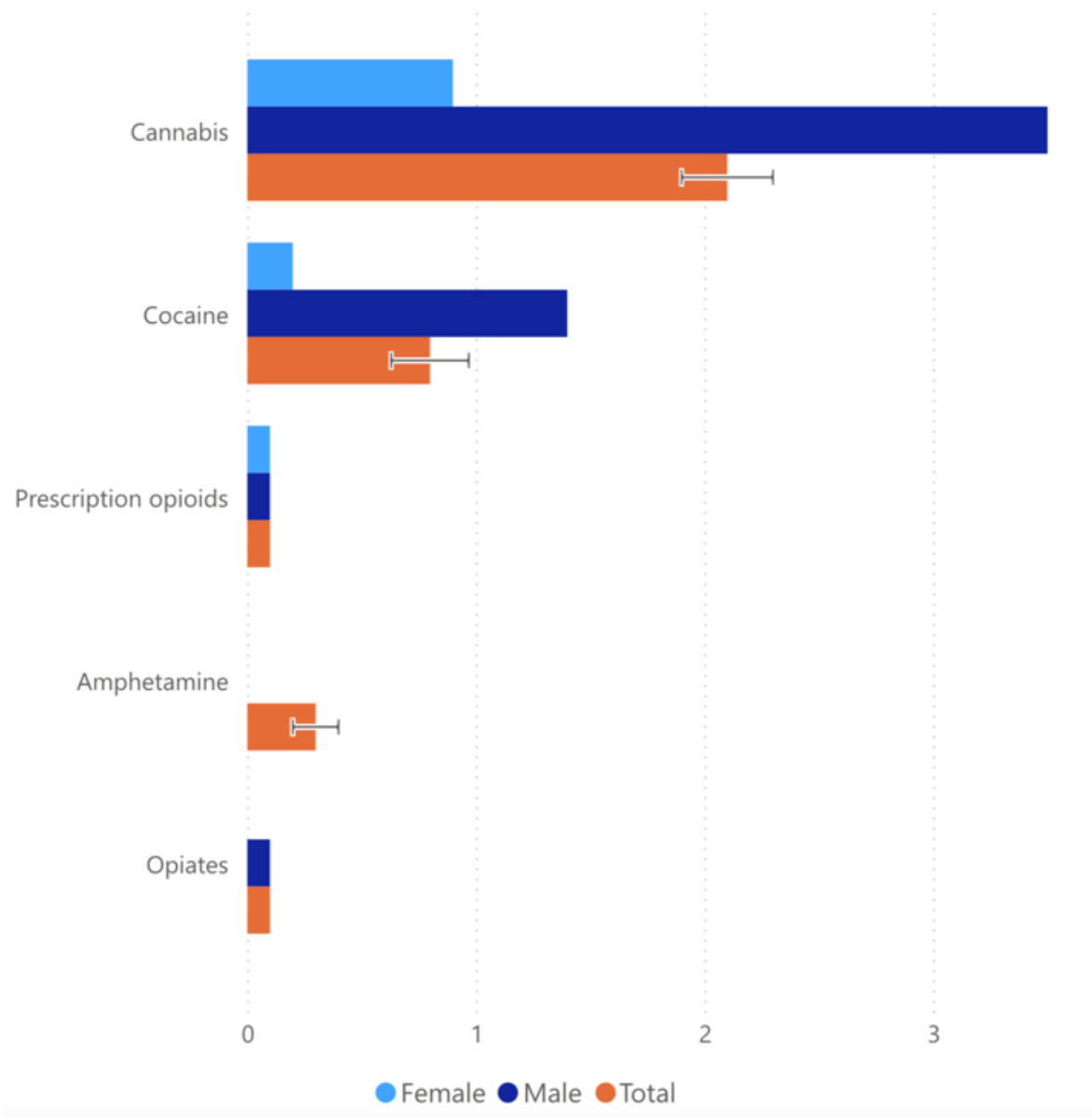


Figure 4. Prevalence of Drug Use in the General Population of Mexico

Source: UNODC

Note: Whiskers are for Low and High Values

2.5. Gun Trafficking

According to **Goodman and Marizco (2010)**, Mexican Drug Trafficking Organizations use many US firearms, in similar and more lethal ways. Ever since President Felipe Calderon took over the power at December 2006, the drug-related killings are estimated to be around 28000. Criminal organizations used firearm violence to force governments to support their illegal businesses. As Drug Trafficking Organizations expands their use of firearms into more military-types of firearms, the US and Mexican government increases collaboration to tackle the firearms trafficking from US to Mexico. Which a positive effect is shown since the ATF (U.S. Department of Justice’s Bureau of Alcohol, Tobacco, Firearms, and Explosives) had referred 497 cases for possible prosecution of firearms trafficking to Mexico during 2009.

3. How does the development of Drug Market affect Mexico’s Economy?

3.1. Labor Market

The loss of labor force is one of the impacts effected by the drug problem, according to **Yuan (2016)**, due to the record of global immigration between 1990-2010, Mexico has been the second major country that’s facing of net outflow of immigrants. By which most of the immigrants moved to USA, and amongst all the Mexican immigrant in USA, almost half of them are illegal immigrants. The average Mexican immigrants in USA has low education level and low economic status. The Mexican government had come up with certain policies to protect its relationship between them and the Mexican immigrants, to raise the living standards of the immigrants, hence, developing Mexico’s economic growth. (**Huang et al. 2022**)

Shown in the Figure 5 according to the data from CEIC and the “voice of San Diego” organization, the homicidal rate and the immigration rate of Mexico are found positively correlated, which the X-axis refers to the percentage of immigration and the Y-axis refers to the homicidal cases amongst 100,000 Mexican civilians. Especially after the major turning point of the last 2000’s after the drug war was started. So the rate of homicidal brought by the drug-related crimes could be a factor that effects the immigration rate.

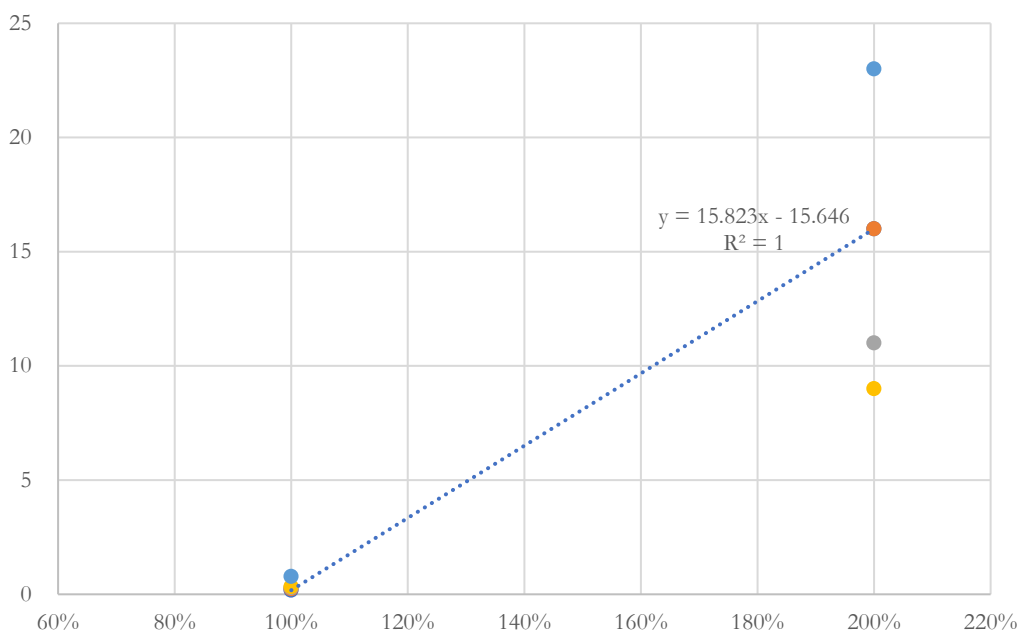


Figure 5. Homicidal rate per 100,000 population and percentage Mexican immigrants

Source: UNODC, Voice of San Diego

Research between 2005-2014 shows that drug-related crime caused a negative impact on employment. By dividing employment into low-skilled and high-skilled employment, the results are that heterogenous amongst these two types. Result shows that 10% increase in drug-related crimes reduced total employment up to 0.9%. And in addition, empirical findings indicates that high-skilled employment is more sensitive to increases dur to drug related violence than low-skilled employment. Which low-skilled employment decreases up to 0.3%, meanwhile skilled employment declines up to 1.5% when drug related violence increases by 10%. It is also found that a rise in drug-related crimes can increase wages as a mechanism of job retaining in violent areas. (**Coronado and Saucedo, 2018**)

Illegal activities create mass amount of profit, plus the Mexican government has become weaker due to the drug war, more individuals are attracted to attend these illegal activities (**Coronado and Saucedo, 2018**). According to **Becker (1968)**, individuals are less hesitant to commit a crime if the expected utility (profits) from committing such crime outweighs the potential costs of being caught and punished.

3.2. Drug Trade between USA and Mexico

Mexico has been the largest supplier of the USA's illicit drug market (Dell, 2015). According to (UNODC, 2011) data, Mexican traffickers earn approximately 25 billions USD each year for only trafficking drugs to USA. With an estimated of 70% of US's cocaine originating in South America passes through the Central America-Mexico corridor, and the Mexico-based groups are believed to control approximately 70%-90% of Methamphetamine production and distribution in US. (Brouwer et al. 2006)

Shown in the Figure 6, according to UNODC, the annual drug seizures in USA calculated in tons, Cannabis has the largest magnitude, followed by Cocaine-type drugs.

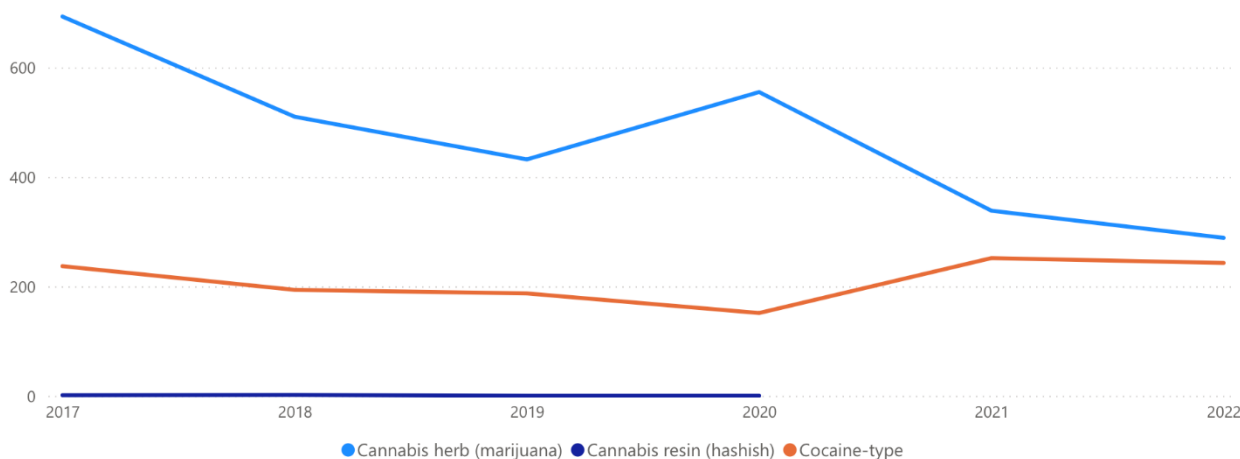


Figure 6. Annual Drug Seizures in Tons by Drug Type by Year in USA

Source: UNODC

The drug problem of Mexico could cause negative effects on neighboring countries, due to the research of Pan et al. (2012), The higher levels of total crime and drug-related violence could cause a spillover effects on the neighboring states. They could lead the theft problem in nearby states into a higher level, which will be transformed into the funds to the cartels for drug deals, also for purchasing services of enforcement gangs.

And although the coca leaves is not cultivated within Mexico, it has become a major transit point for cocaine drugs since year 1970. (Brouwer et al. 2006)

3.3. Socioeconomical Problem

The economic of a country has become a symbolism of the national power, unfortunately in Mexico, according to Pu and Xilai (2003), The large profits obtained from completely criminal activities, especially illegal drug trafficking, are not only divided among criminals of all sizes, but also obtained by the business community, trade community, and some national institutions. Many official economic activities are beneficial for their involvement in crime. The sectors involved in these activities, including transportation, tourism, entertainment, and finance, all provide varying degrees of protection for drug trafficking. Research shows that, as officials are concerned, the departments involved in cracking down on local illegal markets collude with each other to easily profit from drug crimes and filling their wallets. Most economic crimes are related to corruption, forced extortion (theft and extortion), or tax related violations (smuggling, tax evasion). These behaviors are considered as parasites of the official economy, and illegal money laundering greatly increases their output and profits by adding value to these behaviors. Behaviors related to illegal drugs have completely independent channels, and their production, consumption, and distribution systems develop under the domination of special logic. They are completely illegal and will be subject to crackdown by the police and the entire judicial system.

The sociological problem caused by the Mexico's drug problem mainly embody in drug-related crimes such as homicidal activities, kidnapping activities etc. (Li, 2023). Which effects large variety

of groups, especially the children and teenager groups. According to **Frias and Finkelhor (2017)**, the trends of child and homicidal rates in three age groups (0-5, 6-11, and 12-17), during the data research, it's found that during 1990-2013 in Mexico, homicide rates has increased rapidly for adults and children in 2008 as did the rates which firearm was used. And according to UNICEF report, child and juvenile homicides has represented almost one in five of all the global homicide victims during 2012. (**Zhao, 2010**)

Apart from children, the total drug-related crime rate in Mexico is still incredibly high, over the last decade, the violent crime has increased across the Latin America area, where the homicidal rate increased 11%, with robberies tripled, on a typical day, 460 people are found suffering from sexual violence, which most of them are women. Today, the average homicide rate in Latin America (24 homicides per 100,000 population) is the highest in the world, three times higher than the global average (with 8 homicides per 100,000 population). Violences occurs mostly among powerful non-state actors (drug cartels) which they have the ability and capacity to challenge the state and governments. (**Huebert, 2019**)

Shown in the Figure 7 below, the intentional homicide per 100,000 population by years in Mexico, its shown that between 2010-2020, the climax has been around 2017 with a number of approximately 55 people died from homicide out of 100,000 people.

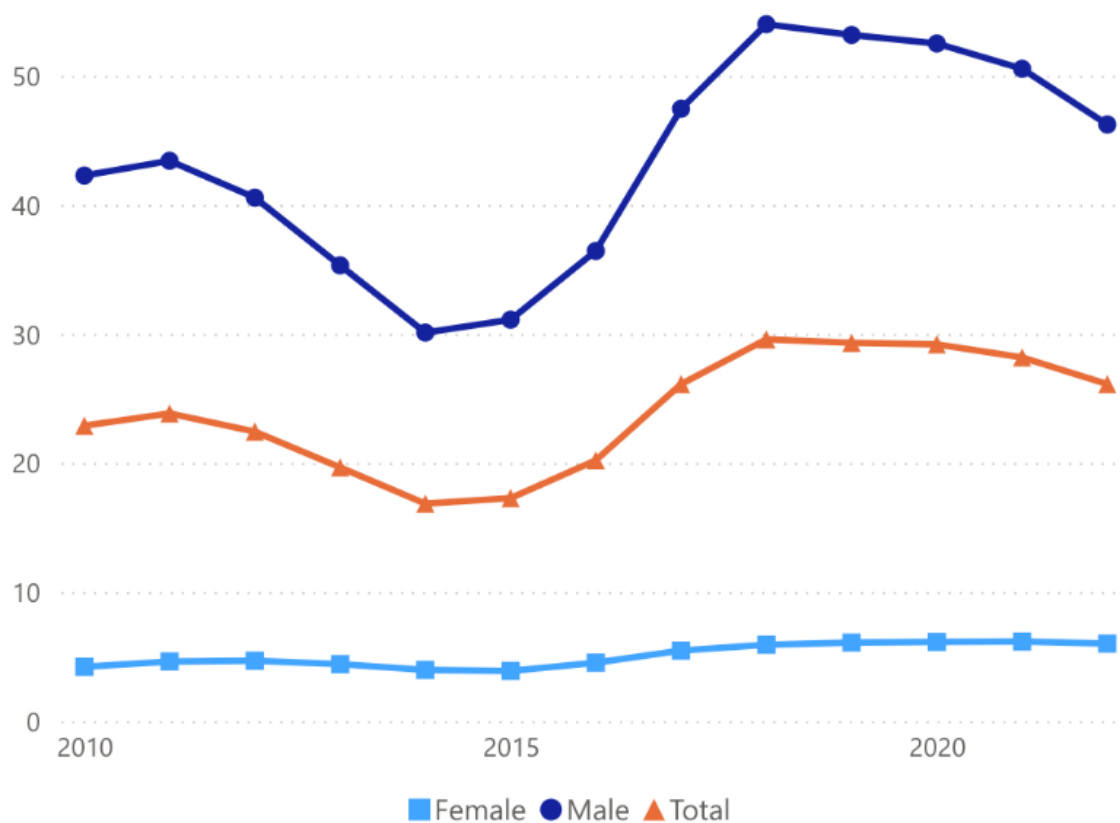


Figure 7. Victims of Intentional Homicide per 100,000 Population by Year in Mexico

Source: UNODC

Talking about why the Mexican cartels has the ability and capacity to challenge the states and governments, according to **Esparza et al. (2019)**, the changes in gun policy of United States of America had increases the supply of firearms input into the Mexican border, which increased the opportunities of gun trafficking into Mexico, and the relationship between firearm availability and homicidal rates was clearly associated. During the mid-2000s, the incidence of drug-related crimes in Mexico (homicide) were at their lowest recorded level ever. However, in the mid-2000s, homicidal rates has increased years by years. In 2011, Mexico reached 24 homicides per 100,000 inhabitants,

which then in 2017 it reached a rate of 25 per 100,000 populations. Over this period, organized crime (kidnapping, robbery, extortions) rates also increased.

Digging deeper into the kidnapping problem, shown in the Figure 8 illustrated by UNODC, the kidnapping rate has reached its highest in the 2013, and later fallen after 2019.

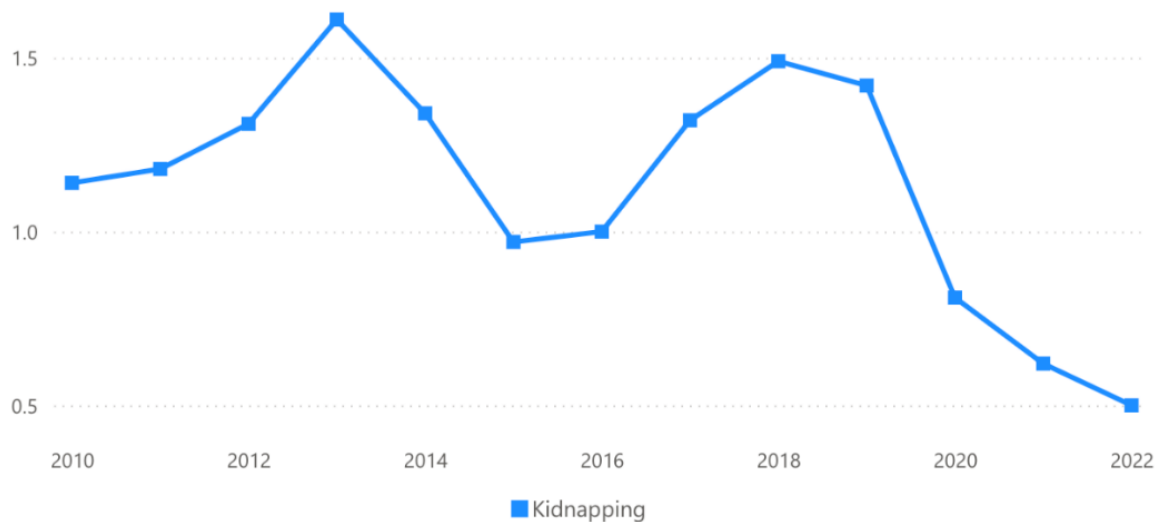


Figure 8. Number of Recorded Offences (Kidnapping) for Selected Crimes per 100,000 Population in Mexico

Source: UNODC

4. Conclusion

The huge magnitude of illicit drug market has become a major problem within Mexico. It is caused by variety of factors, like the historical reason, the political reason and the economic problem, but most importantly, it's the strong demand of drugs within the US citizens. These following researches has explained causes of the expansion in Mexico's illicit drug market, and the increases in drug-related crime.

The history of conflict between USA and Mexico has planted the seeds of hatred from Mexicans towards the Americans, which half of the Mexican territory is invaded by US, forming a border line between them. The political problem mainly describes the timeline of the Mexican political system from the Institutional Revolutionary Party forming its' "sheltering" relationship between them and the drug trafficking organizations, to how the National Action Party took over the power, breaking the sheltering relationship, starting a drug war. By the mid 2000's, or more accurately, 2006-2007, the drug violence rapidly increases after the drug war is started. Poverty and income inequality is a basis of why the labor market of illicit drugs trafficking continues to expand. Mexico as a country between the USA and the grey triangle (Latin Area) has become a drug transit point, which increases the supply of importing drugs into USA.

The negative effects brought by the illicit drugs problem is most importantly the increases in rate of homicide and kidnapping (drug-related violence), and the migration outflow rate causing loss in population, then the economical corruption and money laundering of drug cartels under the protection of other official economical organizations.

It is found that the main factors that caused this problem, is the government bureaucracy (economical corruption, gang-political members) being the barrier of government regulation, gun trafficking from USA to Mexico immediately increases the rate of crime, poverty and income inequality kept expanding the labor market (the income of drug trafficking are way higher). These factors have caused this problem being knotty and hard to solve.

According to the information above, the solving method for the illicit drug market problem and the drug-related violence in Mexico is suggested firstly to seek help from the USA and reinforce the border defense between them, in order to cut down the trade of gun trafficking and drug supplying.

The bureaucracy problem is hard to solve since identity of the cartel members are remain unknown, apart from that, the policy targeting economical businesses should be strengthened to avoid the economical corruption and money laundering, cutting down the collaboration between the economical businesses and the cartels.

For individuals, its recommended that the Mexico sectors of education should emphasize the importance of anti-drug consuming within the children and teenagers, to lower down the demand of illicit drugs in Mexico.

In the POV of economy, decreasing in demand is always useful for decreasing down the supply, which further leads to the decrease in profit of the illicit drug cartels, further weakening the ability of drug cartels against the government sectors.

And for adults, government should give out more policies on poverties, gaining popular supports, and further persuading for Mexican citizens to be hostile against the drug cartels, further decreasing the magnitude of the drug trafficking labor markets.

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