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Author(s):	<i>Matt Taraba</i>
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The Mexican Border, Drugs and The Cartels

Matt Taraba

Mexico and the United States share a border of 1,989 miles of which 1,254 is the portion shared by Texas. The other 3 border states, New Mexico, Arizona and California have less miles of border and most of those miles are along arid deserts and mountains making illegal or unobserved passage difficult.

Twin Cities Along The Mexican-Texas Border Texas is noteworthy in several areas where large urban centers exist side by side on the Mexican and U.S. side. These are often called “Twin Cities” and include Juarez-El Paso, Laredo-Nuevo Laredo, McAllen-Reynosa and Brownsville-Matamoros. In most instances the Mexican city is substantially more populous and the strong job market and access to American consumer goods have made the Mexican border cities some of the most rapidly growing cities in Mexico.

Expansion of Trade

Much of the growth in these cities was accelerated with the creation of the North American Free Trade Agreement (NAFTA) during the 1980’s that saw the movement of American, German and Japanese manufacturers to Mexico to take advantage of two things: convenient access to the American market and inexpensive labor. Designated as a response to the European Common Market and similar agreements in Asia, it facilitated rail and highway development, removed many trade barriers and tariffs and saw the creation of substantial industrial manufacturing in the Mexican border cities and now especially along highways and rail lines from the Texas Border along eastern Mexico to Mexico City. The increased trade now sees more than 500 million border crossings into and out of the United States each year with more than half being persons that are not citizens of the United States. The greatest activity is on the Mexican border and those miles from roughly south of San Antonio, Texas to Brownsville. The point of the highest rate of crossings is Laredo-

Nuevo Laredo with autos, persons, trucks and trains crossing 365 days a year and 24 hours a day. It is one of the busiest land ports in the world.

Population and Wage Differentials

Today Mexico has a population of 120 million and the United States with 313 million. The median age in Mexico is under 27 years while that in the United States is about 10 years older at 37 years. Per capita income and average hourly manufacturing wages in Mexico as low as \$2.50 an hour, a harsh comparison to American wages of about \$25 an hour. Thus Mexico has a distinct advantage in labor costs and has, resultantly, fueled manufacturing growth. Yet in spite of this growth, Mexican employment levels are substantially below needs with as much as half of this population un- and underemployed.

Criminal Cartels

The population’s youth and employment needs have resulted in many young persons not involved in traditional labor markets such as agriculture, retail and manufacturing, and thus serve as an important pool of youthful labor attracted to organized criminal activity. This results in a complex part of Mexico that is devoted to organized criminal activities bringing a variety of contraband into the United States, most visible in illegal drugs and human trafficking.

The Mexican drug cartels have estimated revenues between \$18,000,000,000 and \$39,000,000,000 every year from selling illegal drugs in the United States. These revenues provide extremely high profit margins as the actual cost of the drugs is around 10% of the price that they are sold at. This means that the cartels have massive amounts of cash to use every year. The cash is important to them for a couple of reasons.

First of all, the cartels have achieved their current level of success because of their ability to

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taint public officials. Part of this success was enabled by the corruption-riddled regime of the Institutional Revolutionary Party (PRI), which controlled Mexican politics for the 71 years before 2000. The PAN held the interlude until 2012 when the PRI recaptured the Mexican Presidency. The other piece of this success comes from the violent tendencies of the cartels. Officials have the choice to accept the cash and look the other way or face violent reprisal from the cartel. Mexicans use the term, *plata o plomo*, silver or lead. Many choose to accept the bribe and keep them and their family safe. The cartels' wealth also makes the drug trade an attractive profession for young, unemployed Mexicans. Low education rates and a high unemployment rate in Mexico make a profession like the drug trade attractive because there is easy money to be made.

Interdicting the flow of cash should be a key objective of the war on drugs. In general this is a difficult task. The cartels revenues are almost entirely in cash. This has a couple of consequences. First off, it allows them to have a means to easily bribe officials and pay their employees. More importantly, it adds an extra barrier for them to get their money into the economy. The place to catch them is when they are introducing the dirty money into the legitimate system as they are most vulnerable there.

Three Representative Examples

There are several examples of this flow into Texas and illustrated by two examples in Austin and one large banking scandal. One was an organized crime ring in north Austin controlled by a cartel, "la Familia" in central Mexico, Michoacán. Persons and fronts like some Mexican restaurants served as a "command and control" base for persons and drugs being moved from Mexico to Austin for local sales and then distribution to other cities. Connections were made through family members and jobs and housing were coordinated through legitimate enterprises like restaurants. (J. Schwart, 2011; G. Thrash 2012). Austin having many

neighborhoods were native Spanish speakers live and with people from the state of Michoacán this provides ready cover and connections for drug rings.

A second example that came to light through Federal prosecutions of money laundering via horse racing in Texas, Oklahoma and New Mexico was played out in the Federal prosecutions of several members of the Zetas Cartel in U.S. Texas Western District Federal Court. One of the problems with the Mexican cartels have with holding large amounts of cash from drug deals is that the money "needs to be washed" to permit it to be placed in banks and used for purchases such as houses, cars, plane tickets, all purchases made not with cash but with checks, money transfers and credit cards. Cash transactions in large amounts generate suspicions and bring unwanted attention to illegal activities. The Zetas hit upon the idea of buying quarter horses, a popular breed in Mexico and the American Southwest. (G. Thompson, 2012).

A third example is in many ways the most disturbing because of the volume of money laundered and the knowing involvement of one of the world's largest commercial banks, Between July 2006 and July 2009 HSBC exported over \$9.4 billion in American currency from HSBC Mexico. This was approximately half of the American dollars that they bought from Mexico in that time period. In February 2008, Banco de Mexico, the central bank of Mexico, noticed what HSBC was doing. They found that their share of U.S. dollar exports from Mexico was far greater than their market share would suggest. They informed HSBC that the only way this was possible was if they were moving proceeds from the drug trade.

HSBC had become the preferred bank for drug dealers. The Banco de Mexico informed HSBC that they had a recording of a local drug lord saying that HSBC was "the place to launder money." They noted that a significant portion of the dollar deposits were coming from Culiacan. The Sinaloa Cartel is based out of Culiacan. From 2006 to 2008 over \$1.1 billion in U.S. currency were deposited into HSBC's Culiacan

branches. In 2007, HSBC uncovered a “massive money laundering scheme” in these branches that involved both employees and managers. The responsible parties were fired, but the branches continued to accept deposits of American dollars.

An investigation by an Immigration and Customs Enforcement team found some of the more atrocious evidence against HSBC. The team was investigating the use of a complicated money laundering scheme to move drug money out of America and into Columbia and Mexico. They found that the cartels were depositing hundreds of thousands of American dollars into HSBC accounts daily. They had even designed special boxes that precisely fit the dimensions of the teller window in order to facilitate the deposit of more drug money into their accounts.

HSBC was buying large amounts of American currency from the cartels. They were aware of the problems associated with their system yet they did not move to fix the problem. In 2008, HSBC Mexico accepted \$4.1 billion in U.S. currency – the most they collected out of any year. HSBC callously ignored the signs of their problems and likely allowed the cartels to launder significant amounts of money.

Conclusion

These are three examples of complex schemes of moving contraband from country to country to secure illegal profits; so that the illegal earnings can be transformed into legitimate wealth and to extend the power of the Cartels. Because of Austin’s proximity to the Mexican border, its location on convenient and well-traveled highway and rail routes and parts of its population that speaks Spanish and is conversant with Mexican culture, it then becomes some level of a command and control setting for organized crime. That setting is enhanced by the rapidly growing city and the nature of much of the population whether college students, legislative staff or attendees at music special events all provide cover for visitors. Public safety authorities must recognize these factors and understand the greater vulnerability of Austin, its institutions and its neighborhoods to organized criminal efforts.

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