By Scott Stewart

This week's Stratfor's Geopolitical Intelligence Report provided a high-level assessment of the economic forces that affect how the Mexican people and the Mexican government view the flow of narcotics through that country. Certainly at that macro level, there is a lot of money flowing into Mexico and a lot of people, from bankers and businessmen to political parties and politicians, are benefiting from the massive influx of cash. The lure of this lucre shapes how many Mexicans (particularly many of the Mexican elite) view narcotics trafficking. It is, frankly, a good time to be a banker, a real estate developer or a Rolex dealer in Mexico.

However, at the tactical level, there are a number of issues also shaping the opinions of many Mexicans regarding narcotics trafficking, including violence, corruption and rapidly rising domestic narcotics consumption. At this level, people are being terrorized by running gunbattles, mass beheadings and rampant kidnappings — the types of events that STRATFOR covers in our Mexico Security Memos.

Mexican elites have the money to buy armoured cars and hire private security guards. But rampant corruption in the security forces means the common people seemingly have nowhere to turn for help at the local level (not an uncommon occurrence in the developing world). The violence is also having a heavy impact on Mexico's tourist sector and on the willingness of foreign companies to invest in Mexico's manufacturing sector. Many smaller business owners are being hit from two sides — they receive extortion demands from criminals while facing a decrease in revenue due to a drop in tourism because of the crime and violence. These citizens and businessmen are demanding help from Mexico City.

These two opposing forces — the inexorable flow of huge quantities of cash and the pervasive violence, corruption and fear — are placing a tremendous amount of pressure on the Calderon administration. And this pressure will only increase as Mexico moves closer to the 2012 presidential elections (President Felipe Calderon was the law-and-order candidate and was elected in 2006 in large part due to his pledge to end cartel violence). Faced by these forces, Calderon needs to find a way to strike a delicate balance, one that will reassert Mexican government authority, quell the violence and mollify the public while also allowing the river of illicit cash to continue flowing into Mexico.

An examination of the historical dynamics of the narcotics trade in Mexico reveals that in order for the violence to stop, there needs to be a balance among the various drug-trafficking organizations involved in the trade. New dynamics have begun to shape the narcotics business in Mexico, and they are causing that balance to be very elusive. For the Calderon administration, desperate times may have called for desperate measures.

The Balance

The laws of economics dictate that narcotics will continue to flow into the United States. The mission of the Mexican drug-trafficking organizations and the larger cartels they form is to attempt to control as much of that flow as they can. The people who run the Mexican drug-trafficking organizations are businessmen. Historically, their primary objective is to move their product (narcotics) without being caught and to make a lot of money in the process. The Mexican drug lords have traditionally attempted to conduct this business quietly, efficiently and with the least amount of friction.

When there is a kind of competitive business balance among these various organizations, a sort of detente prevails and there is relative peace. We say relative, because there has always been a level of tension and some level of violence among these organizations, but during times of balance the violence is kept in check for business reasons.

During times of balance, the territorial boundaries are well-established, the smuggling corridors are secure, the drugs flow and the people make money. When that balance is lost and an organization is weakened — especially an organization that controls one or more valuable smuggling corridors — a vicious fight can develop as other organizations move in and try to exert control over the territory and as the incumbent organization attempts to fight them off and retain control of its turf. Smuggling corridors are geographically significant places along the narcotics supply chain where the product is channelled — places such as ports, airstrips, significant highways and border crossings. Control of these significant channels (often referred to as "plazas" by the drug-trafficking organizations) is very important to an organization's ability to move contraband. If it doesn't control a corridor it wants to use, it must pay the organization that does control it.

In past decades, this turbulence was normally short lived. When there was a fight between the organizations or cartels, there would be a period of intense violence and then the balance between them would either be restored to the status quo ante or a new balance between the organizations would be reached. For example, when the Guadalajara cartel dissolved following the 1989 arrest of Miguel Angel Felix Gallardo, and the Arellano Felix Organization (AFO) and the Sinaloa cartel emerged from the Guadalajara cartel to fill the power vacuum, there was a brief period of tension, but once balance was achieved, the violence ebbed — and business returned to normal. However, the old model of cartel conflicts has changed. The current round of inter- and intra-cartel violence has raged for nearly a decade and has intensified rather than abated; there appears to be no end in sight. In fact, death tolls are far higher today than they were five years ago.

This inability of the cartels to reach a state of balance is due to several factors. First is the change of products. Mexican drug cartels have long moved marijuana into the United States, but the increase in the amount of cocaine being moved through Mexico in the 1980s and 1990s changed the dynamic — cocaine is far more compact and far more lucrative than marijuana. Cocaine is also a "strategic narcotic," one that has a transnational supply chain far longer than drugs like marijuana or methamphetamine, and that long supply chain is difficult to guard. Because of this, organizations involved in the cocaine trade tend to be more aggressive and violent than those that smuggle drugs with a shorter supply chain like marijuana and Mexican opium.

At first, Mexican cartels like the Guadalajara cartel only smuggled cocaine through their smuggling routes into the United States on behalf of the more powerful Colombian cartels, which were seeking alternate routes to replace the Caribbean smuggling routes that had been largely shut down by American air and sea interdiction efforts. Over time, however, these Mexican cartels grew richer and more powerful from the proceeds of the cocaine trade, and they began to take on an expanded role in cocaine trafficking. The efforts of the Colombian government to dismantle the large (and violent) organizations like the Medellin and Cali cartels also allowed the Mexicans to assume more control over the cocaine supply line. Today, Mexican cartels control much of the cocaine supply chain, with their influence reaching down into South America and up into the United States. This expanded control of the supply chain brought with it a larger slice of the profits for the Mexican cartels, so they have become even more rich and powerful.

Of course, this large quantity of illicit income also brings risk with it. The massive profits that can be made by controlling a smuggling corridor into the United States are a tempting lure to competitors (internal and external). This means that the cartels require enforcers to protect their personnel and operations. These enforcers and the escalation of violence they brought with them are a second factor that has hampered the ability of the cartels to reach a balance.

Initially, some of the cartel bosses served as their own muscle, but as time went by and the business need for violence increased, the cartels brought in hired help to carry out the enforcement function. The first cartel to do this on a large scale was the AFO (a very aggressive organization), which used active and current police officers and youth gangs (some of them actually from the U.S. side of the border) as enforcers. To counter the AFO's innovation and strength, rival cartels soon hired their own muscle. The Juarez cartel created its own band of police called La Linea and the Gulf cartel took things yet another step and hired Los Zetas, a group of elite anti-drug paratroopers who deserted their federal Special Air Mobile Force Group in the late 1990s.

The Gulf cartel's private special operations unit raised the bar yet another notch, and the Sinaloa cartel formed its own paramilitary unit called Los Negros to counter the strength of Los Zetas. With paramilitary forces comes military armament, and cartel enforcers graduated from using pistols and submachine guns to regularly employing fully automatic assault rifles, rocket-propelled grenades and hand grenades. As we have previously noted, thugs with such weapons do pose a threat, but when those weapons are in the hands of highly-trained gunmen with the ability to operate as an integrated unit, the threat is far greater.

The life of a cartel enforcer can be brutish and short. In order to find additional personnel to beef up their ranks, the various cartel enforcer units formed outside alliances. Los Zetas worked with former Guatemalan special forces commandos called Kibbles and with the Mara Salvatrucha street gang (MS-13). La Linea formed a close alliance with the American Barrio Azteca street gang and with Los Aztecas, the gang's Mexican branch. Cartels also recruit heavily, and it is now common to see them place "help wanted" signs in which they offer soldiers and police officers big money if they will quit their jobs and join a cartel enforcer unit.

In times of intense combat, the warriors in a criminal organization can begin to eclipse the

group's businessmen in terms of importance, and over the past decade the enforcers within groups like the Gulf and Sinaloa cartels have become very powerful. In fact, groups like Los Zetas and Los Negros have become powerful enough to split from their parent organizations and, essentially, form their own independent drug-trafficking organizations. This inter-cartel struggle has proved quite deadly as seen in the struggle between AFO factions in Tijuana over the past year and in the more recent eruption of violence between the Gulf cartel and Los Zetas in northeastern Mexico.

This weakening of the traditional cartels was part of the Calderon administration's publicized plan to reduce the power of the drug traffickers and to deny any one organization or cartel the ability to become more powerful than the state. The plan appears to have worked to some extent, and the powerful Gulf and Sinaloa cartels have splintered, as has the AFO. The fruit of this policy, however, has been incredible spikes in violence and the proliferation of aggressive new drug-trafficking organizations that have made it very difficult for any type of equilibrium to be reached. So the Mexican government's policies have also been a factor in destabilizing the balance.

Finding a Fulcrum

The current round of cartel fighting began when the balance of cartel power was thrown off by the death of Amado Carrillo Fuentes in 1997, which resulted in the weakening of the once powerful Juarez cartel. Shortly after the head of the Sinaloa cartel, Joaquin Guzman Loera, aka El Chapo, escaped from prison in 2001, he began a push to move in on the weakened Juarez cartel. Guzman initially succeeded and the Juarez cartel became part of the Sinaloa Federation until the two cartels had a falling out in 2004.

Then when the chief enforcer of the AFO, Ramon Arellano Felix, was killed in 2002, both the Sinaloa and the Gulf cartels attempted to wrest control of Tijuana from the AFO. Finally, when Gulf cartel kingpin Osiel Cardenas Guillen was captured in March 2003, the Sinaloa cartel sent Los Negros to attempt to take control of the Gulf cartel's territory, and this sparked a series of violent clashes in Nuevo Leon and Tamaulipas. The BLO's top enforcer, Edgar Valdez Villarreal (La Barbie), led Los Negros into Nuevo Laredo.

These same basic turf wars are still active, meaning that there is still ongoing violence in Reynosa, Nuevo Laredo, Ciudad Juarez and Tijuana, but as noted above, the actors are changing, with organizations like Los Zetas breaking out of the Gulf cartel and the Beltran Leyva Organization (BLO) parting ways with the Sinaloa cartel. Indeed, the Gulf and Sinaloa cartels have joined forces with La Familia Michoacana (LFM) to form a new super cartel called the New Federation and are now allies in the struggle against Los Zetas and the BLO, which have teamed up with the Juarez cartel to fight against the New Federation. One constant in the violence of the past decade has been the aggressiveness of the Sinaloa cartel as it has sought to take territory from other cartels and organizations.

In the midst of the current cartel landscape, which has radically shifted over the past year, it is difficult for any type of balance to be found. There are also very few levers with which the Calderon government can apply pressure to help force the shifting pieces into alignment. In the

near term, perhaps the only hope for striking a balance and reducing the violence is that the New Federation is strong enough to kill off organizations like Los Zetas, the BLO and the Juarez cartel and assert calm through sheer force. However, while the massed forces of the New Federation initially made some significant headway against Los Zetas, the former special operations personnel appear to have rallied, and Los Zetas' tactical skills and arms make them unlikely to be defeated easily.

There have been many rumours that the New Federation, in its fight against Los Zetas, was being helped by the Mexican government. (Some of those rumours have come from the New Federation itself.) During the New Federation's offensive against Los Zetas, federation enforcers have been seen driving around Reynosa and Nuevo Laredo in vehicles openly marked with signs indicating they belonged to the New Federation. While far from conclusive proof of government assistance, the well-marked vehicles certainly do seem to support the cartel's assertion that, at the very least, the government did not want to interfere with the federation's operation to destroy Los Zetas.

When pieced together with other observations gathered during the cartel wars, this also suggests that the Sinaloa cartel may have consistently benefited from the government's actions. These actions would include taking out the BLO leadership after the Beltran Leyva brothers turned against Sinaloa and the government's success against La Linea and Los Aztecas in Juarez. There are also occasional contraindications, such as the recent large-scale attacks against military bases in the northeast that appear to have been conducted by the New Federation.

Despite these contraindications, the cartels fighting the New Federation believe the government favours the group, and there have long been rumours that Calderon was somehow tied to El Chapo. The Juarez cartel may have recently taken some desperate steps to counter what it perceives to be a dire threat of government and New Federation cooperation. A local Juarez newspaper, El Diario, recently published an article discussing a Los Aztecas member who had been detained and interrogated by the Mexican military and federal police in connection with the murders of three U.S. Consulate employees in Juarez in March. During the interrogation, according to El Diario, the Los Aztecas member divulged that a decision was made by leaders in the Barrio Azteca gang and Juarez cartel to engage U.S. citizens in the Juarez area in an effort to force the U.S. government to intervene in Mexico and therefore act as a "neutral referee," thereby helping to counter the Mexican government's favouritism toward the New Federation.

Of course, it is highly possible that the Sinaloa cartel is just a superior cartel and is better at using the authorities as a weapon against its adversaries. On the other hand, perhaps the increasingly desperate government has decided to use Sinaloa and the New Federation as a fulcrum to restore balance to the narcotics trade and reduce the violence across Mexico.

In any case, we will be closely watching the activities of the New Federation and the Mexican government over the next several months to see if this hypothesis is correct. Much hangs in the balance for Calderon, the Mexican people and their American neighbours.

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