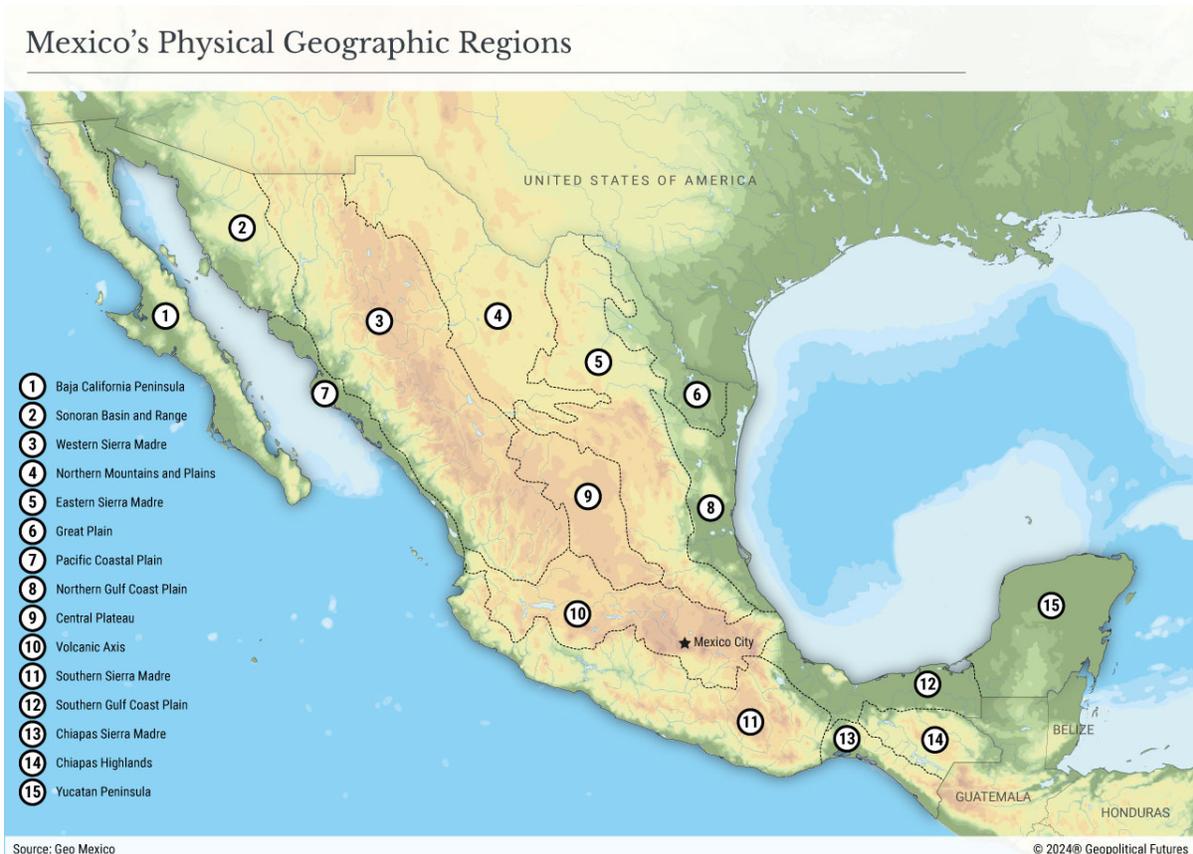


How Mexico Plans to Reclaim Its Economy

by Allison Fedirka - January 29, 2024

In Mexico, security and economic recovery are intertwined. Politicians and citizens alike understand that the country's powerful criminal groups threaten both, and though they broadly agree that something should be done, no one agrees on the best path forward.

Partly this is because of geography. Throughout history, mountains, deserts, peninsulas and other features have divided Mexico into various subregions, many of which are **too remote or too inaccessible for Mexico City to effectively govern**. These power vacuums have given rise to independence movements, warlords, revolutions and even parallel governments. Organized criminal groups such as the Sinaloa and the Jalisco New Generation cartels are simply a contemporary expression of a historical reality.



[\(click to enlarge\)](#)

The problem for the federal government is the power these groups have been able to amass. Ignoring the sheer wealth generated from the lucrative drug trade, one of the biggest contributions to their power is the mass defection of Mexican armed forces. When Vicente Fox of the National Action Party (or PAN) assumed office in 2000, his government fundamentally redefined its relationship with the military, and servicemen lost a lot of the immunities, operational freedoms, financial benefits and social status afforded to them through 70 years of rule under the Institutional Revolutionary Party (or PRI). Whatever their reasons for joining, the cartels' capabilities improved markedly, gaining the sophistication, organization and discipline typically reserved for the forces meant to police them.

More recently, cartels were able to massively expand their local influence at a low cost during the COVID-19 pandemic. In many remote locations, they stepped in to ensure the delivery of basic goods where the national government could not. This allowed organized crime to permeate even deeper into remote communities across the country.

Organized crime groups now control large portions of the formal and informal economies. To be sure, they still engage in illicit activities such as human, arms and narcotics trafficking, but increasingly they function like multinational corporations, with chief operating officers earning MBAs from top universities, assuming control over all branches of the business, working with the equivalent of subsidiaries and having strong ties to business in the rest of Latin America as well as Caribbean criminal groups. In the formal economy, they tend to function as adjuncts to government services. They monopolize local control of internet providers, source and provide pharmaceuticals, and engage in legitimate business activities such as manufacturing and selling their own cigarette brands. Nationally, they impose taxes and quotas on the avocado and lime industries, and they have even made inroads in the beer market.

The increased presence of organized crime groups in areas traditionally part of Mexico's formal economy poses a new level of threat to the country. In years past, their presence might have scared off foreign investors or increased security and transportation costs. But now, it raises the question of who controls which parts of the national economy. This is particularly important as the country continues to recover from the pandemic – a tall order in its own right that becomes much more difficult if the government is limited on what it can do with its economy.

Politically, there is consensus that regaining control of the economy is essential for economic recovery and requires redefining the role of organized crime in the country. However, Mexican political circles remain divided over what strategy would be the most effective in achieving their goal. The two leading strategies are represented by Mexico's top two presidential candidates. The

candidate from the ruling Morena party, Claudia Sheinbaum, wants to double down on the strategy used by the PRI: a gentleman's agreement whereby the cartels operate relatively freely within the parameters set forth by the government. The benefit of this strategy is that the government wouldn't necessarily have to reclaim control of certain sectors or retake territory – both of which would eventuate in violence. Instead, negotiated agreements would enable the government and the cartels to work together on economic matters. The problem, of course, is that this strategy would reward the cartels by giving them power over the government. It would also likely see the weakening of key government institutions needed to subjugate the cartels. Unsurprisingly, there is opposition to this strategy within security and defense circles, which would be inclined to slow implementation or impede it entirely.

The second strategy – advocated by opposition candidate Xochitl Galvez, whose view represents the PRI, PAN and the Party of the Democratic Revolution – calls for a strong state offensive to retake what it has lost. The upside here is that it would target corruption and the economic power propping up organized crime, and if it succeeds, it would eliminate a security threat that has plagued Mexico and its economy for decades while giving Mexico City undisputed control over its economy. The downside is that it requires a ton of political capital, which will be hard to come by if the government is purging corrupt rank and file, struggling to keep up morale and buy-in among security forces, and managing the political fallout of what is sure to be mass death and destruction. The latter would scare off the foreign investment the country's economic recovery depends on. (A similar strategy was tried under President Felipe Calderon, with little success.)

Each strategy will shape Mexico's economic recovery in its own way. The Morena strategy will minimize violence but could hamper national businesses and reduce FDI as investors will find it hard to trust such an arrangement in the long term. The second strategy will require a massive amount of money and resources, increasing the likelihood of economic pain in the short term for potential gains in the long term. Neither strategy will be immune to the vagaries of political implementation.

Geopolitically, the fight against organized crime seeks to answer one of Mexico's most fundamental questions: Can the government find a way to be in full control of its territory and economy despite the country's geography and history? The Morena strategy essentially wants to work within those constraints, while the other believes Mexico can break out of its constraints – if it's willing to pay the price.

Andres Araujo contributed to this analysis. Mr. Araujo is an intern at Geopolitical Futures and a student at the University of Valle de Atemajac in Guadalajara, Mexico, where he studies international relations.

Author: Allison Fedirka

[Read more from this author on geopoliticalfutures.com](https://geopoliticalfutures.com)