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**THESIS**

**WHAT EXPLAINS THE PATTERNS OF  
DIVERSIFICATION IN DRUG TRAFFICKING  
ORGANIZATIONS?**

by

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June 2016

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**WHAT EXPLAINS THE PATTERNS OF DIVERSIFICATION IN DRUG  
TRAFFICKING ORGANIZATIONS?**

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Submitted in partial fulfillment of the  
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## **ABSTRACT**

The purpose of this thesis is to identify the factors that influence drug trafficking organizations' motivations to diversify their operations. With that in mind, the thesis seeks to answer the question: What explains the patterns of the drug trafficking organization's diversification? For this thesis, I have used sources found on corporate diversification, in addition to sources that I have found for three Mexican drug trafficking organizations (DTOs): the Sinaloa, Los Zetas, and Tijuana, to highlight the similarities and the differences in patterns among the three. The thesis concludes that various factors allow the DTOs to diversify into new businesses. First, as is the case in Mexico, the state has to be weak to provide opportunities for the clandestine organizations to diversify. Second, DTOs find opportunities through economic globalization and abundance of organizational resources that they use to motivate themselves to diversify. Moreover, to acclimate to the ever-changing clandestine landscape, DTOs require a decentralized internal structure. DTOs diversify to maximize their ability to cross-subsidize their revenue to combat state suppression. Rather than using hard power to cripple the DTOs, the Mexican government needs to understand their operation to hit them where it hurts, in their profits, by better understanding their operation.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

CO	criminal organizations
COHA	Council on Hemispheric Affairs
DTO	drug trafficking organizations
EMPRA	emerging markets political risk analysis
FARC	The Revolutionary Armed Forces of Colombia
FBI	Federal Bureau of Investigation
FDI	foreign direct investment
GAFES	Grupo Aeromóvil de Fuerzas Especiales
ISIL	Islamic State of Iraq and the Levant
NAFTA	The North American Free Trade Agreement
NPR	National Public Radio
PEMEX	Petróleos Mexicanos
PSYOPS	psychological operations
TCO	transnational criminal organization

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# I. INTRODUCTION

## A. OVERVIEW

Drug trafficking organizations (DTOs) have become more diverse and complex than ever before. DTOs have taken advantage of economic globalization and the digital revolution, diversifying operations and increasing profitability through global trade, transportation, and money transfers to legitimize their prominent roles within the state.<sup>1</sup>

The purpose of this thesis is to identify the factors that influence the DTOs' motivations to diversify their operations. When I started this research, my goal was to use research that began in the late 1990s by scholars and non-government organizations on the diversification patterns of legitimate corporations to examine two national-level Mexican cartels, the Sinaloa and the Zetas, and a smaller cartel, the Tijuana cartel, to determine whether the cartels have similar diversification patterns. With that in mind, the thesis seeks to answer the question: What explains the patterns of the drug trafficking organization's diversification?

The thesis explains different factors that allow the DTOs to diversify into new businesses. First, it is necessary that the state be in a weakened condition. The research concludes that the landscape created by the weak Mexican state provides opportunities for the clandestine organizations to diversify. Second, the opportunities found through economic globalization and an abundance of organizational resources motivate the organizations to diversify, continuously funding not only their survivability but also immense profits. Moreover, this thesis concludes that as the DTOs diversify, in addition to external forces, the internal structure of the organization has to be decentralized to an extent, which allows the organization to acclimate itself to the ever-changing clandestine landscape.

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<sup>1</sup> California Attorney General, *Gangs beyond Borders: California and the Fight against Transnational Organized Crime* (Sacramento, CA: California Attorney General, 2014), 19.

## **B. SIGNIFICANCE**

Modern DTOs are unlike the criminal organizational groups of the 1980s and the 1990s, wherein the groups were mainly large, concentrated on particular goods, and concretely structured. Today, the DTOs are significantly more fluid and adaptive. They behave more like legitimate corporations as they diversify their illicit, and licit business more than ever before. As the DTOs diversify—whether it be legally or illegally—one thing is certain: wherever the DTOs go, violence and havoc follows. So, why should people care that DTOs are diversifying? Why should the governments care, scholars care, and lastly, the general public care about DTO diversification? Reasons why these groups care are discussed below.

### **1. The Government**

The diversification and expansion of the DTOs in recent years is a security concern for the governments of Mexico and the United States. In their rise to power from small drug trafficking organizations to the multinational organizations, DTOs have perpetrated acts of violence resulting in many deaths. Although the bulk of these deaths were due to intra-DTO activities, at least, 20 Mexican mayors, hundreds of military personnel, and hundreds of police officers in the line of duty have been killed in the years 2000–2005.<sup>2</sup> Also, although significant DTO violence happens within Mexico—mostly on the central Pacific coast and northern Mexico, out of which the majority of the larger DTOs tends to operate—the violence has raised significant and critical concerns among the United States government officials concerning possible violence “spillover” into the U.S. bordering communities.<sup>3</sup>

In addition to the violence, the diversified expansion of the Mexican DTOs can be a potential risk to the U.S. economy as DTOs tend to penetrate the financial and the commercial markets. As stated by the National Security Council regarding this topic, DTOs “threatens U.S. economic interest and can cause significant damage to the world

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<sup>2</sup> David A. Shirk, *Drugs Violence and State Responses in Mexico* (San Diego: Department of Political Science, University of San Diego, 2012), 6.

<sup>3</sup> Luis Astorga and David A. Shirk, *Drug Trafficking Organizations and Counter-Drug Strategies in the U.S.-Mexican Context* (Washington, DC: Woodrow Wilson International Center for Scholars, 2010), 4.

financial system through its subversion, exploitation, and distortion of the legitimate market and economic activity.”<sup>4</sup> Here, the concern for the government is that if these illicit organizations diversify out of their narcotics into more of a commodity-based industry such as oil, precious metals, and the transportation sector, their tendencies to use bribery and violence will significantly neutralize the government’s ability to act against them. The inability to contain the DTO’s expansion will surely diminish the economic competitiveness of the market by driving out legitimate businesses and possibly damaging legitimate economic growth.<sup>5</sup>

## 2. The Scholars

It is imperative for the scholars who study DTO diversification to understand the “organizational structures, potential sources of revenues, and recruitment mechanisms”<sup>6</sup> to be able adequately analyze the internal dynamics and possible motives for DTO diversifications. Unfortunately, for academics who are researching this topic, as the dynamics of DTOs are constantly shifting through economic globalization, so will scholars’ methods of research. Today, as DTOs are diversifying at an unprecedented rate, many analysts now refer them as a transnational criminal organization (TCO), not just DTOs. What is important and significant for scholars is that the dynamics within the DTOs have changed dramatically over the years. The change in dynamics has also made it challenging to pinpoint what these organizations are diversifying into, and through this diversification, how much money is generated through DTOs’ non-drug activities. Therefore, scholars continue research to better understand how individual DTOs are structured and how they operate is a significant step in discovering how they diversify.

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<sup>4</sup> White House, “Transnational Organized Crime: A Growing Threat to National and International Security,” White House, accessed November 21, 2015, <https://www.whitehouse.gov/administration/eop/nsc/transnational-crime/threat>.

<sup>5</sup> June S. Beittel, *Mexico: Organized Crime and Drug Trafficking Organizations* (Washington, DC: Congressional Research Service, 2015), <https://www.fas.org/sgp/crs/row/R41576.pdf>, 6.

<sup>6</sup> Antonio L. Mazzitelli, *Mexican Cartels Influence in Central America* (Fort Benning, GA: Western Hemisphere Security Analysis Center, 2011), <http://digitalcommons.fiu.edu/whemsac/45>, 17.

### 3. The General Public

At the first glance to Americans living in the United States, the DTOs diverse activities seem very foreign and far away. However, for people residing in Mexico, this is hardly the case. In Mexico, as the DTOs, such as the Zetas, are diversifying their businesses into a new industries such as kidnapping and extortion. Accordingly, citizens' daily lives are filled with terror and unpredictability.

A DTO has two basic functions in the society: "It can offer a product that legal businesses cannot provide, and it can steal or extort."<sup>7</sup> To the general public, the types of product that DTOs offer is of a huge concern as they include drugs, gambling, pirated goods, prostitution, and immigrant smuggling. The second offering of the DTOs includes "kidnapping, cargo robberies, car theft, and bank heists."<sup>8</sup> According to Ioan Grillo, out of the two types of DTO offerings—granted all are harmful to the society—the first category is the least detrimental.<sup>9</sup> He explains that although a firm's diversification into resource theft or gambling is unethical, these diversifications mostly involve physical merchandises that are not always life threatening. He notes, "shakedowns and kidnappings, however, terrorize communities, scare away investors, and burn businesses."<sup>10</sup>

DTO diversification can potentially bring pain and terror to any involved community. There are multiple reasons why DTOs are more active in certain territories than others; regardless, as U.S. citizens, we cannot just sit and ignore the fact that DTOs just south of the border are more than capable of crossing the border when given the opportunity. Their reasons and methods of diversification require further study and should be one of our primary concerns.

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<sup>7</sup> Ioan Grillo, *El Narco: Inside Mexico's Criminal Insurgency* (New York: Bloomsbury Press, 2011), 262.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

## C. LITERATURE REVIEW

There is ample literature on the Mexican DTOs and the process of corporate diversification; however, when it comes to Mexican drug cartel diversification, the amount of relevant literature significantly drops. Scholarly articles and books are available and comprise a significant portion of the sources used for my research. Also, several governmental reports and works by subject matter experts offer supporting materials to my research. By using historical information written on corporate diversification and correlating it to Mexican DTOs' behaviors, structure, and operations, my intent is to bring the two bodies of literature together to discover motives for Mexican DTOS' diversification and why some diversifications succeed and others fail. To accomplish this task, I will first elaborate on business diversification, then lead into the criminal organizations, and finish the literature review with the structure of the criminal organizations.

### 1. Diversification

The daily operations and the strategies of both Sinaloa and the Zetas cartels are difficult to understand. To better understand their diversification process, this section provides a quick review of the literature on corporate diversification to develop a framework for this study.

The concept of diversification is yet to be clearly defined in the study of economics. Likewise, the researchers of this topic still have yet to come up with a consensus for defining diversification. For instance, Reed and Luffman point out that the term "diversification" has many different meanings that depend in which context the term is used.<sup>11</sup> An earlier definition of diversification by researchers such as Gort<sup>12</sup> and Berry<sup>13</sup> define the subject as products and services across multiple industries or market

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<sup>11</sup> Richard Reed, and George A. Luffman, "Diversification: The Growing Confusion," *Strategic Management Journal* 7, no. 1 (1986): doi:10.1002/smj.4250070104.

<sup>12</sup> Michael Gort, *Diversification and Integration in American Industry* (Princeton: Princeton University Press, 1962).

<sup>13</sup> Charles Horace Berry, "Corporate Growth and Diversification," *The Journal of Law & Economics* 14, no. 2 (1971): 371–383.

boundaries. Likewise, Hoskisson, Ireland, and Hitt<sup>14</sup> attempted to explain diversification as a particular investment or partnership enabling a central organization to grow and to reduce the overall risk of the business operations.

In the simplest form, business diversification refers to a firm's entry into a new market with which it is currently not associated. The overall scheme of diversification represents the company's departure from the existing base of current operations—either through business acquisition or an internal strategy—in an effort to counterbalance the strengths and weaknesses of its current operating businesses. However, corporations occasionally venture into unrelated investments because of the potential of high-profit-margin and their otherwise minimal resource demands.<sup>15</sup>

The literature overview of the motives for diversification states that there are many possible reasons behind the diversification strategies,<sup>16</sup> and due to this variety, researchers mostly argue the corporate motives are related to nature of competitiveness and performance. Montgomery lays out three comprehensive schools of thoughts that bring together a number of separate points. The first school of thought is the market power view.<sup>17</sup> It argues that a firm will “thrive at the expense of non-diversified firms not because they are any more efficient, but because they have access to what is termed *conglomerate power*.”<sup>18</sup> In other words, market-power synergy is created if individual units within the diversified corporation balance one another by offering consumers one-stop-shop experience. Scholar argue the only downside of this theory is that for a firm to be successful, the “firm must have some measure of strength in its individual markets.”<sup>19</sup> Simply put, firms diversify to gain additional market power. If a company is in an

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<sup>14</sup> Michael Hitt, Duane Ireland, and Robert. Hoskisson, *Strategic Management: Competitiveness and Globalization: Concepts* (Mason, OH: Thompson South-Western College, 2014).

<sup>15</sup> Caron H. St. John, and Jeffrey S. Harrison, “Manufacturing-based Relatedness, Synergy, and Coordination,” *Strategic Management Journal* 20, no. 2 (1999): 129–145. doi:10.1002/1097-0266(199902)20:23.0.co;2-f.

<sup>16</sup> Cynthia A. Montgomery, “Corporate Diversification,” *Journal of Economic Perspective* 8, no. 3 (1994): 164. 163–178.

<sup>17</sup> *Ibid.*, 165.

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*



insignificant position in any of its current operating markets, it will not have the conglomerate power, which increases its chance of failing in the new market.

The second school of thought proposed by Montgomery regarding firm diversification is the agency view. According to Montgomery, several motives behind diversification from an agency perspective will not benefit the principal. Here, the main argument is that within the firm, there may be a separation between the owner and the manager (i.e., the manager does not own any equity of the company). According to Matsusaka, a corporate organization expert, the agency view within diversification is predominantly based on the idea that because of diffused ownership arises between the owner and the managers; the business ownership has neither incentive nor any method to monitor and discipline its managers.<sup>20</sup> The perspective is that the managers within the firms are left with the freedom to pursue their own personal goals, which might include “empire building, protecting their specific human capital from firm’s risk, and entrenchment.”<sup>21</sup> Shleifer and Vishny and other economic scholars argue that a company with significant disconnect of ownership increases the probability of managers pursuing value-reducing strategies to further enhance their own personal objectives at the expense of firm’s profitability.”<sup>22</sup> In the case of the Mexican DTOs, the agency view of diversification could represent the behaviors of the Zetas as the core organizational structure evolves around rapidly expansion of its “cells” that analysts call “clustered hierarchy.”<sup>23</sup>

Besides the self-interest of empire building by the managers, the agency view theory proposes additional reasons for why managers may pursue firm expansion. As the organization ages and diversifies, the manager, as a rational human being, may opt to direct the firm’s diversification to increase the demand for the particular skills that the manager has. Again, Shleifer and Vishny term this sort of behavior as “managerial

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<sup>20</sup> John G. Matsusaka, “Corporate Diversification, Value Maximization, and Organizational Capabilities,” *The Journal of Business* 74, no. 3 (2001): 411, doi: 10.1086/321932.

<sup>21</sup> Ibid.

<sup>22</sup> Andrei Shleifer, and Robert W. Vishny, “Takeovers in the ‘60s and the ‘80s: Evidence and Implications,” *Strategic Management Journal* 12, no. S2 (1991): 51–59. doi:10.1002/smj.4250121005.

<sup>23</sup> Mazzitelli, *Mexican Cartels*, 21.

entrenchment.”<sup>24</sup> They argue that the managers of the firms in search of managerial entrenchment will often over-invest beyond the firm’s value-maximizing level. Likewise, another reason for diversification in the views of managers is in effort to reduce the risk of the firm, thus reducing their unemployment risk.<sup>25</sup> By expanding the firm into many different portfolios, the job security of the managers will increase.

Third and lastly, there is the resource view of diversification. The idea of the resource view suggests that the bundled resources and capabilities of the firm that are combined as time goes on directly reinforce the firm’s competitive advantage. Here, the theory is that if the firm has some sort of underused resources (e.g., the established drug trade routes of the Sinaloa cartel) that can be gainfully employed for additional revenue, it has a reason to expand. The profit generated by the successful growth will be more than likely underused and eventually used to grow and fund its diversification into new sector of the market.

## **2. Transnational Criminal Organizations**

Today, transnational criminal organizations (TCO) are very active in different parts of the world, seeking out vast opportunities where the risk of difficulties is low. Here, the concept of crossing borders to generate profit through illicit means is nothing new. Therefore, it is a good idea to understand the TCOs’ markets and hierarchies and how they differ from legitimate transnational organizations.

In his 1973 seminal essay, “Transnational Organizations in World Politics,” Huntington states that transnational organizations carry out key directed operations in multiple nations, mobilize new resources, and follow improving strategies across national boundaries.<sup>26</sup> Collaboratively, the main features of transnational organizations can be applied to criminal organizations, such as the Sinaloa and the Zetas cartels. However, as

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<sup>24</sup> Shleifer, and Vishny, “Takeovers,” 137.

<sup>25</sup> Montgomery, “Diversification,” 166.

<sup>26</sup> Samuel Huntington, “Transnational Organizations in World Politics,” *World Politics* 25, no. 3 (April 1973), 340.

much as there are similarities between the two, the legality factor, enforced by the state governments, is different. As noted by Samuel Huntington:

In most instances, a transnational organization can conduct its operations only with the approval of the government claiming sovereignty over the territory in which it wishes to operate. Consequently, the transnational organization and the national government have to reach an access agreement defining the conditions under which the operations of the former will be permitted on the territory of the latter.<sup>27</sup>

As stated by Huntington, a legal organization has to follow governmental rules and regulations to conduct business as a corporation. However, that is where the difference between the legal and illegal entity occurs. According to Nieto-Gomez, transnational criminal organizations, such as the Mexican DTOs, are significantly unobstructed by regulations imposed by the state government and “supply and demand of the criminal products or services dictate the price.”<sup>28</sup> Moreover, criminal organizations function not as a body that will typically bargain access agreement to operate in a particular territory like a legal corporation, but in a strategic, whatever-it-takes effort to avoid government confrontations as much as possible to continue with illicit activities. In some cases, with the Mexican drug cartels, they take great effort to persuade state officials through usage of bribes to achieve “institutionalized corruption.”<sup>29</sup> In effect, this opens new doors to new diversification and allows them to conduct clandestine activities within state territories without much interference.

Max Weber defined a central feature of modern statehood as “the monopoly of the legitimate use of physical force within given territory.”<sup>30</sup> In contrast to Weber’s definition of a state, analysts have witnessed cases in which for the Mexican cartels, there is no need for an agreement with the state officials—mostly because the Mexican states

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<sup>27</sup> Ibid., 355.

<sup>28</sup> Rodrigo Nieto Gomez, *The Geopolitics of Clandestine Innovation in the Drug Business. A Framework of Analysis to Understand Adaptation Capacities of TCOs* (Washington, DC: Joint Chiefs of Staff, 2013), <https://medium.com/@rodrigonieto/the-geopolitics-of-clandestine-innovation-in-the-drug-business-a07efe494035#.i9ijxyxcn>, 4.

<sup>29</sup> M. E. Newhouse, “Institutional Corruption: A Fiduciary Theory,” *Cornell Journal of Law and Public Policy* 23, no. 3 (2014): 553, 554, doi:10.2139/ssrn.2335619.

<sup>30</sup> Max Weber, Hans Heinrich Gerth, and C. Wright Mills, *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1946), 78.

seriously lack of legitimacy and lack of ability to stop criminal activities in the hinterlands. According to scholars, the lack of state legitimacy in the periphery mostly occurs in developing states in transition.<sup>31</sup>

### 3. Structure of Organizations

According to the Federal Bureau of Investigation (FBI), the criminal organizations today are not the same as the organizations that we once knew as the mafia. With the growth of economic globalization, a crucial concern of the organized crime analysis is to figure out how organized the current illicit firms really are. According to Williams, there are two opposing patterns.<sup>32</sup> The traditional model of organized crime is what he calls a mafia model. Here, as it was once understood of the Mexican DTOs' organizational structure, "the major components are a clear-cut hierarchy, well-defined role specialization within the hierarchy, the exercise of control, authority and initiative. . . . Attempt to establish monopoly control over illicit markets, the use of violence and the use of corruption."<sup>33</sup> On the opposite side of the spectrum is the market paradigm model, best represented by Peter Reuter, which proposes that the world of organized crime as disorganized and that the illicit markets operate, for the most part, like any other market utilizing the concept of supply and demand.<sup>34</sup> This is what we are witnessing with Mexican DTOs today.

However, researchers today are observing what appears to be a third pattern for understanding organized crime. As described above, traditionally large, illegitimate organizations conducting business in given territories were relatively easy targets for authorities and easily dismantled by external forces. What the researchers are currently finding is that organizations, such as the Mexican DTOs, are considerably looser and less

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<sup>31</sup> Erica Marat, "Impact of Drug Trade and Organized Crime on State Functioning in Kyrgyzstan and Tajikistan," *China and Eurasia Forum Quarterly* 4, no. 1 (2006), [http://old.silkroadstudies.org/new/docs/CEF/Quarterly/February\\_2006/Erica\\_Marat.pdf](http://old.silkroadstudies.org/new/docs/CEF/Quarterly/February_2006/Erica_Marat.pdf), 93.

<sup>32</sup> Phil Williams, and Dimitri Vlassis, *Combating Transnational Crime: Concepts, Activities, and Responses* (London: Frank Cass, 2001), 72.

<sup>33</sup> *Ibid.*

<sup>34</sup> Peter Reuter, *Disorganized Crime: The Economics of the Visible Hand* (Cambridge: MIT Press, 1983).

formally structured organizations than before. This makes DTOs more resistant to dismantlement and harder to contain as a whole.

Unfortunately, as academic analysts have found, law enforcement agencies are still inclined to treat organized crime as the old centralized hierarchies. It is vital to understand is that organizations, such as the Sinaloa and the Zetas cartels are sophisticated firms that are extremely fluid and capable of adapting to the changing environments, and therefore, our understandings of the illicit firms must change. David Ronfeldt of the RAND Corporation has stated that over time, societies have been dominated by tribes, hierarchies, and markets; however, as humans progress, the new tribes have just gotten better and are more effective and efficient, at what they do. Ronfeldt argues that the current society values the networks of organizations, and these systems in societies have significant advantages over more traditional bureaucratic hierarchies.<sup>35</sup>

What we have discovered so far is that transnational criminal organizations, such as the Mexican DTOs, lack the formal structure of the legitimate transnational corporations. Still, many of the criminal organizations behave similarly to the legal transnational corporations. For example, they normally have a home base in one country and operate across multiple national borders to conduct diversified operations. The home territory more than likely is a safe haven that provides a low-risk environment, as the state in the home country is weak, compliant, or plainly corrupt. Conducting their operations from these safe-havens allows these firms to fulfill the demands for illegal products and continuously smuggle the goods using the path of less resistance.

#### **D. HYPOTHESES AND ALTERNATIVE HYPOTHESES**

Economic globalization stimulates business diversification and has enabled the rapid growth of licit, international trade all around the world. These economic phenomena have also facilitated the rise of illegal commerce and the criminal enterprise engaging in illicit activities. Frankly, one cannot automatically assume that the growth of

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<sup>35</sup> David Ronfeldt, *Tribes, Institutions, Markets, Networks: A Framework about Societal Evolution* (Santa Monica, CA: RAND Corporation, 1996), <http://www.rand.org/pubs/papers/P7967.html>.

transnational organized criminal firms mirror the full globalization side of the spectrum as not all have the will nor the capacity to exploit the new opportunities that may be presented. Here, for various reasons, researchers recognize that some of the DTOs are not motivated to diversify and instead remain localized in their operation.

Knowing this, I propose three hypotheses: 1) resource exploitation, 2) push versus pull, 3) weak state. I also propose one alternative hypothesis: the competition hypothesis. Both my hypotheses and hypothesis are tested in terms of the language of observable implications witnessed with the DTOs currently active in Mexico to determine why some criminal organizations decide to diversify their product portfolio while other do not.

In this thesis, I argue that DTOs are motivated to diversify because of three different hypotheses. Primarily, the background condition of a weak state must be in place before DTO diversification can take place. Without this baseline condition, the level of diversification opportunities is low for the DTOs. Second, as the DTOs slowly gain momentum and increase their assets, the underutilized resources will motivate them to diversify. Third, and lastly, the economic globalization within the society either pushes or pulls the DTOs to diversify into a new sector of the market. As the licit market grows through globalization so does the illicit, clandestine market growth.

### **1. Resource Exploitation Hypothesis**

The resource exploitation hypothesis suggests that if DTOs have any underutilized resources, such as the drug trafficking routes or a specialization that could be used to generate additional income, they will be motivated to diversify. For the DTOs, as for legitimate corporations, underused resources are wasted and do not generate any additional profits. To maximize benefits, the DTOs, as would a legitimate corporation, will seek out opportunities through their already implemented infrastructures and exploit the opportunities to best of their ability.

The observable implications for this hypothesis may be the rise of smuggling business other than the trafficking of drugs that utilize the networks of drug trafficking routes already established. For the DTOs, it makes sense to know that the routes that they currently use or the lands that they currently own could be utilized for many different

activities other than drugs. Here, the rise of smuggling activities, such as illegal migrants, firearms, and sex trafficking, could be a sign that the DTOs are exploiting its underutilized resources and thus potentially diversifying business into new industries.

Hypothesis (H) H<sub>1</sub>: DTOs diversify to fully maximize its underutilized resources. Therefore, if the firm has the will and the resources, it will want to branch out to other sectors of the market that could benefit from its current underused resources.

## **2. Push versus Pull Hypothesis**

In today's globalized economy, states seek economic development to be competitive. Unlike in the past where the DTOs were pushed into doing one thing—trafficking of drugs—now, as countries like China are demanding more raw materials to grow their infrastructure, and they desire to obtain natural resources as cheaply as possible. Contrary to in the past, today, the DTOs are pulled into new industries as a means of diversification. As demand for natural resources such as iron ore and oil increases, the DTOs will quickly recognize the demand and do whatever it is necessary to enter the market—if that means being pulled into new, unfamiliar industries.

As the observable implication for the push versus pull hypothesis, more and more DTOs will move into unfamiliar territories to assist growth of world globalization by supplying goods at a significantly lowered price. The DTO diversification could be the act of extortion of local people in a specific industry or legally hiring the locals to produce a product that is in demand. One thing is certain, the majority of the industries (e.g., resource extraction, and manufacturing) that the DTOs are being pulled into are legitimate to some extent; however, the *way* the DTOs engage in their newly acquired industries will be illegitimate in nature.

H<sub>2</sub>: The globalization will pull the DTOs to diversify into new industries. Therefore, the needs of the world will pull the DTOs to diversify into a particular market.

## **3. Weak State Hypothesis**

Criminal organizations usually pose a significant challenge for all types of states and state governance. As DTOs gain strength and legitimacy through their ability to

overcome governmental efforts to shut them down, their natural behavior is typically hostile as they employ intimidation and violence against the government and even the local population as majority of DTOs are accustomed to using hard power rather than soft to achieve their goals.

For the weak state hypothesis, the observable implications are the weak governance by the state of its territories. If the government cannot, or simply does not, have the capacity to offer its citizens the basic goods citizens require for their daily lives, it creates a vacuum, which the criminal organizations can fill. Moreover, due to the disconnection between state and population, the local officials and law enforcers are more prone to corruption. This corruption will ultimately decrease the government's ability to make decisive action against the criminal organizations, giving the DTOs the incentives to take advantage of the weak governance and diversify even further. In addition, the DTOs diversification into legitimate enterprises further complicates the state's ability to shut them down.

Alternative hypothesis (AH)<sub>1</sub>: Weak states indirectly create a void that incentivizes DTOs to diversify. Therefore, if the state cannot provide the means to protect and serve its citizens' basic needs, the DTOs are motivated to fill the vacuum created within the society.

#### **4. The Competition Model**

As it is nearly impossible to research every single DTO operating in Mexico to determine all motives for diversification, the hypotheses are my educated suggestions. Moreover, the competition model hypothesis may indeed answer why some DTOs in Mexico diversify, but for my testing, it was the least substantial. As the evidence supporting this hypothesis is not as strong as the evidence for the three main hypotheses, the competition model hypotheses is an alternate.

According to June Beittel, an analyst in Latin American affairs, the current DTO landscape exhibits “more competition and more violence” than ever before.<sup>36</sup> As the

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<sup>36</sup> Beittel, *Mexico*, 22.



DTOs have fractured and become more diversified continuously over the years, the relative illicit activities remain the same while fracturing of DTOs will result in more competition and likely more violence within the clandestine landscape. DTOs are established to make money, and to be successful, they must compete. To accomplish this, DTOs have to exercise power and determine strategic ways to lower competition.

For the competition model hypothesis, there are two possible observable implications. First, to further diversify, the organization has to be already established with enough cash flow to be able to cross-subsidize its new diversification. Without prior established source of income, a DTO's motivation and the ability to diversify into a new, highly competitive market will be very slim. However, if the firm can take its proceeds from its core industry and has the ability to use the proceedings in its new industry to drive out the competitors, it has a reason to diversify.

Conversely, as a second observable implication for the competition model, if the market already contains large firms that appear to be difficult to eliminate, the firm may still want to diversify into the industry. However, rather than competing and wasting resources, the DTOs may decide to work together through interdependence. If one witnesses multiple, large firms in the same industry without a lot of violence, they may be in fact working together interdependently.

AH<sub>2</sub>: DTOs diversify because their goal is to minimize competition. Therefore, the firm will first try to diversify into a new market by eliminating the competitors by themselves. However, if determined that it cannot, it will try to form an alliance with other DTOs.

## **E. RESEARCH DESIGN**

This thesis draws upon the literature written in the field of opportunity structures and the most-similar research design developed by John Stuart Mill.<sup>37</sup> For this thesis, my intent is to use a mixture of sources that I have found on corporate diversification, but more importantly the sources that I have found for two national level Mexican drug

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<sup>37</sup> John Gerring, *Social Science Methodology: A Unified Framework* (Cambridge: Cambridge University Press, 2012), 209.

cartels, the Sinaloa and the Zetas, and one smaller cartel, the Tijuana cartel. By comparing three different cartels, my intent is to differentiate the similarities and the differences in patterns among the three. My choice of Mexican DTOs for this thesis is based on the fact that these Mexican organized criminal groups have evolved into an unprecedented threat to both Mexico and the United States. Today, the Mexican organized crime is not only about drug business. Unlike the centralized Colombian cartel-style organizations, the Mexican organizations are morphing into something far more determined and dangerous for Mexico and neighboring states.

The three Mexican cartels that I have decided to research fit perfectly with my research design because the national level cartels (Sinaloa and Los Zetas) lend themselves to comparison as they are very diverse yet similar in size. Moreover, the two cartels are different in that their initial formation and internal dynamics. Even though both the Sinaloa and the Zetas are categorized as national level cartels due to their size and tendency to control and maintain presence in specific valuable drug routes, the Sinaloa's are specialists when it comes to drug production and trafficking. In contrast, the Zetas do not have a distinct specialization in any particular criminality.

Conversely, unlike the previous Sinaloas and Zetas, the Tijuana cartel is considered to be a mere "toll collector." It earns its incomes not as a diversified organization but as a drug corridor gatekeeper that is known to receive toll fees from other cartels that wants to use its border municipalities to send drug shipments into the United States. What sets the Tijuana DTO apart from other diversified DTOs is its area confinement. Unlike the Sinaloas and the Zetas, which can quickly isolate themselves as they see fit through diversification, the Tijuana cartel are mostly confined to its border municipalities—decreasing its likeliness of diversification into a new market.

Here, my intent is to first compare the Sinaloa and the Zetas cartels. From there, I will compare them to the less-diverse Tijuana cartel to see if there are any significant patterns differentiations when it comes to DTO diversification. To best understand each of the cartel's history, organization, and motives for diversification, I focus my research on most current online resources that provide the most up-to-date information on DTO dynamics. To understand the evolving dynamics within the each cartel, I researched news

sources from both Mexico and the United States. Additionally, I use U.S. state official publications that have ample information on the recent trends and occurrence of cartel diversification. Furthermore, for a broader spectrum of information, websites (such as the InsightCrime), U.S. governmental publications, and online news videos offer real investigation and analysis of organized crime in Mexico.

## **F. THESIS OVERVIEW AND CHAPTER OUTLINE**

Following the introduction chapter, which includes the literature review with the general background of corporate diversification and the transnational organized crime, Chapter II introduces the Sinaloa cartel. With the understanding of the corporate diversification process from Chapter I, Chapter II examines the background history of the Sinaloa cartel—the way it was initially formed and its organizational structure—to determine whether there are particular patterns of behavior or modes of operation that can be used to determine its diversification process accordance with my hypotheses.

Chapter III examines the Zetas cartel. Very similar to Chapter II, Chapter III discusses the background of the cartel—more specifically its operation style, structure, and how it was initially formed as the protector of the Gulf cartel—to determine if any of its behaviors or structures particularly stand out as a determinant to its diversification motives.

Unlike the national level cartels examined in Chapters II and III, the Chapter IV investigates the Tijuana cartel. The basic concept of this chapter is to compare the Tijuana cartel with the two different types of cartels within Mexico that may predict the future behaviors. As Tijuana cartel is known as the smaller cartel in Mexico that does not diversify in the extent of its national level cartels due to its limited reach, this chapter will compare the difference between the Sinaloa and the Zetas to the Tijuana to conclude that if the DTOs want to survive, it has to recognize both the internal and external organizational constraints and diversify. Finally, Chapter V ties my research together and draws an overall conclusion about the research question.

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## **II. SINALOA DRUG TRAFFICKING ORGANIZATION**

### **A. INTRODUCTION**

This chapter explores the characteristics of one of the most successful drug trafficking organization in Mexico today, the Sinaloa Cartel. By analyzing how the organization was initially formed and how it presently operated in the clandestine industry, this chapter lays out the foundation for a behavior of a successful organization to be compared to Los Zetas and the Tijuana cartels that are examined in the later chapters. In this chapter, I argue that out of the proposed hypotheses, the current situation of marijuana legalization in the U.S. and the rapid expansion of global electronics best explain the reasons why the Sinaloa DTO is aggressively motivated to diversify into new business. The chapter first briefly reviews the background of the cartel, internal structure, and followed by the testing of the hypothesis to determine which factors motivated its actions to diversify to become one of the most successful drug trafficking organizations in Mexico.

### **B. DRUG TRAFFICKING ORGANIZATION BACKGROUND**

The Mexican Sinaloa Cartel is recognized by many as the most productive drug trafficking organization in the world. Patrick Keefe, a policy adviser to the Office of the Secretary of Defense, has stated that in today's world drug market, the Sinaloa Cartel has grown to achieve a "market share of at least 40 percent and perhaps as much as 60 percent."<sup>38</sup> Initially founded on the west coast of Mexico in the 1980s and formerly known as the Blood Alliance, today, the cartel generates a strong, multibillion dollars revenue through an underground drug industry of smuggling and trafficking numerous variations of narcotics that are imported mostly from various Latin American states and trafficked into the United States.<sup>39</sup> To compare the annual percentage of diversified drugs sold by the Sinaloa Cartel to a legitimate corporation as a size comparison, experts

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<sup>38</sup> Patrick R. Keefe, "How a Mexican Drug Cartel Makes Its Billions," *The New York Times*, June 17, 2012, [http://www.nytimes.com/2012/06/17/magazine/how-a-mexican-drug-cartel-makes-its-billions.html?\\_r=0](http://www.nytimes.com/2012/06/17/magazine/how-a-mexican-drug-cartel-makes-its-billions.html?_r=0).

<sup>39</sup> Stephen L. Mallory, *Understanding Organized Crime* (Sudbury, MA: Jones and Bartlett, 2012), 68.

calculate that the Sinaloa Cartel’s annual revenue “of some \$3 billion—is comparable to the net earnings to Netflix or, for that matter, to Facebook.”<sup>40</sup> The sheer amount of profit that Sinaloa Cartel generates dwarfs many of other legitimate corporations that are in operation in the world today.

The Sinaloa Cartel, led by Joaquin “El Chapo” Guzman Loera, is known to be headquartered in Culiacan, Sinaloa, in the Pacific coast of Mexico. As one of many known talents of the Sinaloa Cartel, the organization has used its “charm”—or bribe—to establish an extensive line of an international network that functions across various continents. How the Sinaloa Cartel has edged compared to other similar DTOs is simply remarkable. With the established networks of global partnerships, the organization has used innovative and subtle capabilities that it has learned throughout the years successfully exporting narcotics to wherever there are demands for their drugs.

Take the U.S. market for example. Unlike the some smaller DTOs that are limited to certain services and resources that they can physically offer, the Sinaloas are more resourceful, flexible, and, most importantly, more diversified than many of its rivals. They can adapt and rapidly distribute the products in demand to any of major cities around the United States.<sup>41</sup> The *New York Times* assessment evaluates “Guzman’s organization is responsible for as much as half of the illegal narcotics imported into the United States from Mexico each year.”<sup>42</sup> Thus, the Sinaloas have positioned themselves at a national level drug trafficking organization and a group with which to be reckoned.

## **1. Internal Structure**

The Sinaloa DTO’s success starts with an intricate organizational structure that has continuously evolved since its initial formation decades ago. The inner workings of the Sinaloa DTO have been described by many as a combination of factors, such as the continuous adaptation of its internal structure to meet the ever-changing clandestine

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<sup>40</sup> Keefe, “How a Mexican Drug Cartel Makes Its Billions.”

<sup>41</sup> Jan-Albert Hootsen, “How the Sinaloa Cartel Won Mexico’s Drug War,” *Global Post*, February 28, 2013, <http://www.globalpost.com/dispatch/news/regions/americas/mexico/130227/sinaloa-cartel-mexico-drug-war-US-global-economy-conflict-zones>.

<sup>42</sup> Keefe, “How a Mexican Drug Cartel Makes Its Billions.”

landscape and fracturing of the organization if deemed necessary for survival. Solely for this reason alone, experts state that other than the family-oriented origins, it is relatively difficult to pinpoint the exact membership of the current organization of the Sinaloa DTO; this makes it possible that many of its present day enemies were once its members.<sup>43</sup>

Unlike the previous, Colombian cartels, studies over the years confirm that the Sinaloa Cartel is a “federation” and does not seem to be operating using a linear structure that it once did.<sup>44</sup> In contrast to the older generation Mexican cartels, the Sinaloa Cartel has evolved from its once straight-cut internal structures to more intertwined networks that employ numerous leaders over several territories. Here, unlike what the popular culture leads us to believe, while El Chapo may be the face for the whole cartel, there are at least four drug lords within the organizational chain-of-command who dictate the next move. In addition to El Chapo, the known top chain-of-command of the Sinaloa DTO is Jesus Vincente “El Vincentillo” Zambada-Niebla, Ismael “El Mayo” Zambada, and Juan Jose “El Arul” Esparagoza Moreno.<sup>45</sup>

An important aspect of the Sinaloa organizational leadership is that each of these *capos* (drug lords) is responsible for controlling, operating, and making important decisions on behalf of the whole group for a particular region. Moreover, as we have seen with the capture of El Chapo on a couple different occasions, this internal organizational structure creates a safety barrier if one of the leaders were to be caught and arrested, ensuring a successful continuation of the business without any gaps.<sup>46</sup> As noted by El Mayo in a rare 2010 interview, “arrests have no effect on the cartel, and that its drugs

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<sup>43</sup> Courtney DeRoche, and Jose Rodriguez, “Sinaloa Cartel: From 2000 to Present,” *DISAM Online Journal & News Source*, last modified 2015, <http://www.disamjournal.org/m/articles/sinaloa-cartel-from-2000-to-present-1404>.

<sup>44</sup> George W. Grayson, *The Cartels: The Story of Mexico’s Most Dangerous Criminal Organizations and Their Impact on U.S. Security* (Santa Barbara, CA: Praeger, 2014), 68.

<sup>45</sup> *Ibid.*

<sup>46</sup> Michael Lohmuller, “Mexico’s Sinaloa Cartel without ‘El Chapo,’” *Insight Crime*, January 13, 2016, <http://www.insightcrime.org/news-analysis/mexico-sinaloa-cartel-without-el-chapo>.

would keep flowing north even if El Chapo were brought down. When it comes to the capos, jailed, dead, or extradited, he said ‘their replacements are ready.’”<sup>47</sup>

As stated before, the bloodline or the family-oriented structure is also the core of the Sinaloa’s daily corporate operations. To ensure safety and security of the organization from sabotage or an insider’s attack, El Chapo is said to purposely integrated the family structure into his business organization. To further spread Sinaloa DTO’s global presence, El Chapo has aligned the organization with localized gangs and DTOs within its interested territories. By affiliating with other DTOs, such as the Beltran-Leyva brothers and localized gangs, the Sinaloa DTO continues to suppress its competition successfully. While the smaller groups may benefit from the Sinaloa Federation in the form of monetary support and representation, the Sinaloa Cartel is the biggest beneficiary of these agreements.

Moreover, to its advantage, the organization’s decentralized internal efforts to increase affiliation with other groups further contributes to the weakening the state’s ability to enforce law and order—further legitimizing Sinaloan presence and behaviors globally. The continued enlargement of the Sinaloa Federations through the intermixing of its associates makes the pinpointing of a specific Sinaloa Cartel perpetrator by authorities that much more challenging. This dramatically benefits the principal Sinaloa members and insulates them from apprehension.

Not surprisingly, violence and threat are typically known as two of the best and widely used weapons of the DTOs; however, the Sinaloa DTO is somewhat different. Its modus operandi, unlike some of other bodies such as Los Zetas, is all about the covert trafficking of narcotics to make a profit without drawing unnecessary attention.<sup>48</sup> As a national level cartel trafficking drugs through any means necessary, the Sinaloa cartel prefers to work with a mentality of “bribe over bullet.”<sup>49</sup> The organization’s preference for

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<sup>47</sup> Theunis Bates, “A Mexican Drug Cartel’s Rise to Dominance,” *The Week*, last modified January 25, 2014, <http://theweek.com/articles/452325/mexican-drug-cartels-rise-dominance>.

<sup>48</sup> Mazzitelli, *Mexican Cartels*, 18.

<sup>49</sup> “Sinaloa Cartel Profile,” Insight Crime, accessed February 10, 2016, <http://www.insightcrime.org/mexico-organized-crime-news/sinaloa-cartel-profile>.



bribery over violence mentally separates the Sinaloa members and its leadership from other groups in the underground landscape. While other DTOs typically opt for the use of brute force to achieve its objectives, the Sinaloa organization prefers to open up its wallet and pay of the officials to get what it wants without causing unnecessary bloody violence. The core values of the organization's bribing mentality may be the key to the cartel's diversified growth as "a cartel cannot flourish at their level without civil and military protection at the highest levels,"<sup>50</sup> said Jorge Carrasco, who covers organized crime for the respected Mexican newsmagazine *Proceso*. *Proceso* recently published with Guzman Loera (El Chapo) on the cover with the title "The Untouchable."<sup>51</sup>

As the magazine *Proceso* has illustrated, El Chapo has an image of being untouchable in Mexico because of his experience and the extent of the influence the Sinaloa Cartel has over the Mexican state officials. Given the preference of bribery by the Sinaloa organization, the police and the legal officials are constantly bribed by the organization—some even flat out belonging on its payroll.<sup>52</sup> Interestingly enough, already infamous for being corrupt, Mexican police officers were recently blamed for committing the crime on behalf of the Sinaloa Cartel—further legitimizing that the modes of operations of the Sinaloa Cartel is working. As stated by Ted Carpenter regarding the bribing of officials, "At one point, more than seven hundred officers were charged with offenses ranging from taking bribes to drug-related kidnapping and murder."<sup>53</sup> The Sinaloa Cartel spends astronomical amounts bribing the Mexican and foreign officials to safeguard its interests and to gain protection. This informal agreement, if successfully aligned with the cartel's overarching mission, will further assist in Sinaloa's efforts of diversification of its drug and vice types of activities.

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<sup>50</sup> John Burnett, Marisa Penalosa, and Robert Benincasa, "Mexico Seems to Favor Sinaloa Cartel in Drug War: NPR," *NPR*, June 1, 2011, <http://www.npr.org/2010/05/19/126906809/mexico-seems-to-favor-sinaloa-cartel-in-drug-war>.

<sup>51</sup> *Ibid.*

<sup>52</sup> Alejandra Inzunza, "US Police Corrupted by Mexico's Cartels along Border," *Insight Crime*, October 21, 2014, <http://www.insightcrime.org/news-analysis/us-police-corrupted-by-mexican-cartels-along-border>.

<sup>53</sup> Ted G. Carpenter, "Corruption, Drug Cartels and the Mexican Police," *The National Interest*, September 4, 2012, <http://nationalinterest.org/commentary/corruption-drug-cartels-the-mexican-police-7422>.

## C. TESTING OF THE HYPOTHESES

As stated in Chapter I, through the process of integration, the economic globalization has enabled the rapid growth of the licit transnational business all around the world. This economic phenomenon has also facilitated the rise of illegal activities, such as human and sex trafficking, conducted by the criminal enterprises. Although it is hard for me to conclude that the Sinaloa DTO's way of diversification is to mimic the business process to a legitimate corporation, my intention through these four hypotheses is for one to better understand the behaviors and the motives of the Sinaloa DTO when it comes to business diversification in the hyper-competitive clandestine market.

### 1. Resource Exploitation

The resource exploitation hypothesis accepts that the reason why Sinaloa DTO diversifies its business portfolio is due to the excess resources, such as the drug trafficking routes, which could be generating additional profit that would otherwise go to waste. By examining the past and the present day drug consumption statistics in United States, one could assume that combination of war on drugs and the legalization of marijuana could equate to the underutilization of already existing drug smuggling trails, thus encouraging the Sinaloa Cartel the need to diversify into other business to fill the underutilized resources.

It is no coincidence that all of the Mexican DTOs want to control the U.S. and Mexico bordering *plazas* to traffic illicit goods into the United States. After all, the single biggest consumer of the narcotics continues to be the United States.<sup>54</sup> Although the statistics show that the overall consumption of drugs has decreased over the years thanks to increased drug awareness, the niche market—the hardcore drug users—are still known to be heavily purchasing drugs. Combining the recreational and the hardcore drug users, the U.S. “spends on the order of \$100 billion annually”<sup>55</sup> on illicit drugs, specifically

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<sup>54</sup> “Illicit Drugs,” Central Intelligence Agency, February 13, 2016, <https://www.cia.gov/library/publications/the-world-factbook/fields/2086.html>.

<sup>55</sup> Beau Kilmer et al., *How Big Is the U.S. Market for Illegal Drugs?* (Santa Monica, CA: RAND, 2016), [http://www.rand.org/pubs/research\\_briefs/RB9770.html](http://www.rand.org/pubs/research_briefs/RB9770.html).

four different types of illicit drugs: cocaine, methamphetamine, marijuana, and heroin.<sup>56</sup> Many of these are a specialty of the Sinaloa Cartel. To generalize the sales of each particular drug that are sold in the U.S. each year, Figure 1 breaks down each of the four drugs into sales and the frequency of usage by the users.

Figure 1. U.S. Drug Market<sup>57</sup>

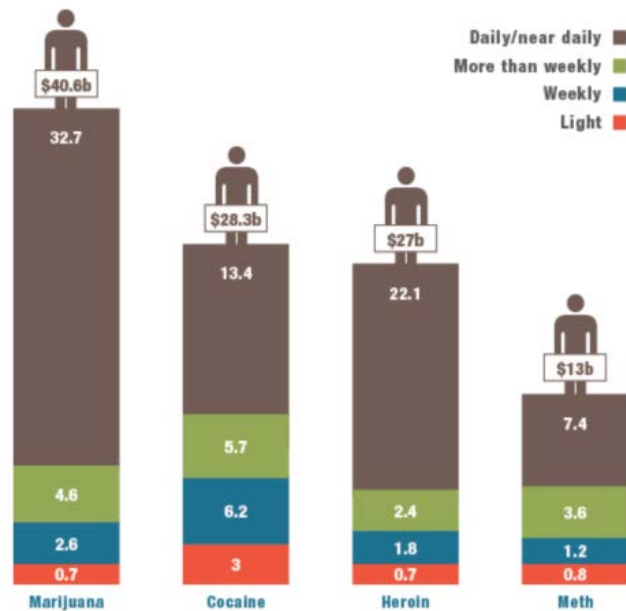


Figure 1 shows the reader the bestselling item within the DTOs is marijuana. However, as difficult it is to seize the northward trafficking of drugs in exchange of southward movement of guns and dollars, the trend is that the sales of marijuana in recent years seem to be drastically decreasing. According to statistics by the U.S. Border Patrol regarding border drugs seized, the interception of northbound marijuana from 2011 to 2014 declined from 2.5 million pounds to 1.9 million pounds.<sup>58</sup> Experts now believe that the reduction in marijuana seizure at the U.S. and Mexican border has little to do with

<sup>56</sup> Ibid.

<sup>57</sup> Source: Beau Kilmer et al., *How Big Is the U.S. Market for Illegal Drugs?* (Santa Monica, CA: RAND, 2016).

<sup>58</sup> Ioan Grillo, "U.S. Legalization of Marijuana Has Hit Mexican Cartels' Border Trade," *TIME*, April 8, 2015, <http://time.com/3801889/us-legalization-marijuana-trade/>.

law enforcement, rather it has a significant correlation with the legalization of marijuana in certain U.S. states to certain degrees.

For the Sinaloa Cartel, the legalization of marijuana in certain U.S. states is a massive blow to its profits. The significance of its profit cutting due to legalization can be seen by how much the organization is paying the growers of marijuana. In an interview of former Sinaloa marijuana grower, “two or three years ago, a kilogram [2.2 pounds] of marijuana was worth \$60 to \$90 a kilo. . . But now they’re paying us \$30 to \$40 a kilo.”<sup>59</sup> Despite the drop in sales of marijuana and other types of drugs over the years, a critical problem that requires attention are the creation of inefficiencies that are created within the drug trafficking trails as the quantity of demand decrease.

So, in a sense, what the Sinaloa Cartel is doing is something very similar to United States Postal Service or Amazon.com does—it is mainly selling a logistics service. For a sophisticated organization such as the Sinaloa, which is famous for building extravagant smuggling trails and tunnels, the possibilities and profitability of its extensive networks of logistics are endless. There is no question that decline in marijuana sales in the United States has hurt the organization; however, such detrimental hurdle in addition to the capture of El Chapo is not slowing down the organization. As stated by the U.S. Attorney Laura Duffy of southern California, since 2006, the authorities have discovered more than “75 cross-border smuggling tunnels,”<sup>60</sup> built by the Sinaloa DTO alone. Moreover, many of the tunnels discovered by the authorities are not regular tunnels that are made to smuggle drugs solely across the border. For the Sinaloa Cartel to successfully recoup some or all the losses occurred by select U.S. legalization of marijuana, for instance, the organization—which is well known for its smuggling tunnels—built “super tunnels” that are said to be in “length of eight football fields, from Tijuana warehouse to a San Diego warehouse,”<sup>61</sup> with built-in arrangements such as a rail system, an oxygen ventilation system for proper breathing, and re-enforced structures

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<sup>59</sup> Jonah Bennett, “Legal Weed Is Killing Mexican Drug Cartels,” *The Daily Caller*, February 9, 2016, <http://dailycaller.com/2015/02/09/legal-marijuana-drug-cartels/>.

<sup>60</sup> Michael Martinez, “Drug ‘Super Tunnel’ with Railway Raided on Mexico Border,” *CNN*, October 24, 2015, <http://www.cnn.com/2015/10/23/us/drug-super-tunnel-tijuana-san-diego/>.

<sup>61</sup> *Ibid.*

for added support for smuggling of drugs, offering a business diversification—smuggling of humans.<sup>62</sup>

To El Chapo's Sinaloa Federation, the additional diversified product offering of human smuggling in addition to human trafficking utilizing the organization's already complex drug trafficking routes makes perfect sense. Because the sales of the drugs in recent years has intensely decreased—mainly due to legalization and increased competition—the Sinaloa Cartel successfully diversified taking advantage of its economies of scope. The organization's hope is to introduce its already established network of drug trails into other markets—in this case human smuggling. Having invested time and resources to build them up, El Chapo and his top capos are not disposed or close off the drug trafficking routes of its business just because of implementation of new external hurdles. Therefore, using the diversification strategy effectively, the Sinaloa Cartel may find alternative ways to utilize all of its current capabilities and resources in the near future. This makes the resource exploitation hypothesis very plausible in the Sinaloa context.

## **2. The Push and Pull**

As the world becomes increasingly more globalized due to increasing usage of mobile phones and a vast array of electronic devices, there will continuously be an opportunity to make money on the supply-chain side of the business. It just depends on who finds the niche opportunity and how they take advantage of it.

Interestingly enough, rather than seeking additional diversified possibilities in the drug-related field, the Sinaloa Cartel has found a niche market in the coltan mining sector of the economy. Coltan, a mineral generally found in “war-torn Central Africa”<sup>63</sup> and many parts of South America, is heavily relied upon by today's growing electronic industry. Coltan is used as a conductor as it can “hold and move electrical signals, and its

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<sup>62</sup> Joseph Serna, “The Ins and Outs of U.S.-Mexico Border Tunnels,” *Los Angeles Times*, May 1, 2015, <http://www.latimes.com/local/lanow/la-me-ln-border-tunnels-20150501-htlmstory.html>.

<sup>63</sup> International Consortium of Investigative Journalists, “Five Things You Need to Know about Coltan,” International Consortium of Investigative Journalists, last modified March 4, 2012, <http://www.icij.org/projects/coltan/five-things-you-need-know-about-coltan>.

conductive ability in extreme temperatures,”<sup>64</sup> which makes it an ideal source for mobile devices used by billions today. Here, as the United States prohibits domestic firms from purchasing coltan from mines ran by criminals or terrorist organizations through the implementation of the Dodd-Frank Act of 2010,<sup>65</sup> there is a concern that due to loss of revenue through the legalization of marijuana in certain U.S. states, the Sinaloa Cartel is being pulled into the illegal ore mining industry to offset some of the cost of losses in the marijuana industry.

By correctly recognizing the niche market in today’s economy, the Sinaloa Cartel is pulled into a new diversified market and now supposedly working side-by-side with the Fuerza Armadas Revolucionarias de Colombia (FARC) in Colombia to exploit the valuable natural minerals. While Sinaloa’s diversification into the coltan market was due to the growth of modern technology, which requires this particular ore, it is a gold mine for profit making. As stated by Colonel Hector Paez, an acting director of Colombia’s police division, to armed criminal groups, earth’s natural minerals return on average of five times the profits of narcotics, sometimes even fetching as much as 19 times that.<sup>66</sup> Moreover, while cocaine takes on average of six months to produce, two kilograms of precious earthly minerals can be illegally mined per day,<sup>67</sup> further satisfying the Sinaloa’s desire to diversify away from its core business of narcotics trafficking.

It is hard to pinpoint how much profit the Sinaloa Cartel is generating from coltan mining with the collaboration with the Colombian FARC. Although Colombia’s geology institute Ingeominas only estimates that country’s possession is only five percent of the world coltan reserves,<sup>68</sup> the country’s lack of effective policing and regulation opens up

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<sup>64</sup> Ibid.

<sup>65</sup> “Dodd-Frank Act Conflict Minerals Reporting Requirements,” *International Trade Bulletin*, September 2012, Toy Industry Association, Inc., [http://www.toyassociation.org/App\\_Themes/tia/pdfs/priorities/Trade/dodd-frank.pdf](http://www.toyassociation.org/App_Themes/tia/pdfs/priorities/Trade/dodd-frank.pdf).

<sup>66</sup> Andrew Willis, “Gold Beats Cocaine as Colombia Rebel Money Maker: Police,” *Bloomberg Business*, June 21, 2013, <http://www.bloomberg.com/news/articles/2013-06-21/gold-beats-cocaine-as-colombia-rebel-money-maker-police>.

<sup>67</sup> Ibid.

<sup>68</sup> Minería Pan-Americana, “Colombia to Auction Mining Areas of Coal, Iron, Gold and Coltan,” Minería Pan-Americana, last modified May 23, 2016, <http://www.cpampa.com/web/mpa/2010/08/colombia-subastara-areas-mineras-de-coltan-oro-hierro-y-carbon/>.

an invitation to non-state actors such as the Sinaloa DTO. According to experts, to Sinaloa's advantage, unlike the globally banned narcotics, the precious ores illegally mined are relatively easy to launder and put up for sale in a legitimate market. This act further legitimizes the desires for the Sinaloa Cartel to diversify. Due to negative circumstances with marijuana and the opportunities in Colombia with minerals, the Sinaloa DTO may feel enough market pulling power to diversify its business.

### **3. The Weak State**

The weak state hypothesis assumes that the state's capacity to effectively combat or defend off the Sinaloa DTO is deficient. A good way to explain this assumption is through Mallory's enterprise theory.<sup>69</sup> This approach speculates in essence that the activities conducted by the DTOs are a result of a void that is created by the state as a result of unfulfilled public demand for its goods and services to live out their daily lives.<sup>70</sup> It is important to understand that the reason organized groups, such as the Sinaloa DTO, endeavor itself into both licit and illicit undertakings is to meet the increasing demands of the consumers. For the Sinaloa Cartel to meet this high demand for goods and services, it is normal for it to adapt itself to take the opportunity presented by the weak state to maximize its earning profits.

To clarify how the weakness of a state can encourage the Sinaloa Cartel to diversify, I use the case of the Mexican Ciudad Juarez. Although there are many other Mexican cities that I could have used instead, I believe that Juarez—known to DTOs as a gateway to the United States—sets a perfect stage to test out how the Sinaloa Cartel can easily tap into government's weakness, its integrity.

Ciudad Juarez, or Juarez to most, is a large an industrial city that neighbors its U.S. sister town of El Paso, Texas. Juarez is considered as the gateway into the United States because after the instatement of the North American Free Trade Agreement (NAFTA), Juarez quickly became home to “approximately 300 *maquiladoras*, or

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<sup>69</sup> Mallory, *Understanding Organized Crime*, 40.

<sup>70</sup> *Ibid.*

assembly plants.”<sup>71</sup> Also, Juarez is home to several border points-of-entry—a perfect ground for the DTOs to set up its smuggling business. Moreover, in 2008, there were more than 23 million people who crossed from Juarez into El Paso.<sup>72</sup> The high magnitude of commerce in Juarez requires an extensive security capacity to control what and who goes in and out of the country.<sup>73</sup>

To the Sinaloa Cartel, the ownership of the Juarez corridor is vital. Known as the “ground-zero”<sup>74</sup> in the underground criminal community, the ability to successfully control this gateway can very much put an organization on top, destroying others in the process. As one observer noted, “Ciudad Juarez is the most immoral, degenerate, and utterly wicked place I have ever seen or heard of in my travels . . . It is a Mecca for criminals and degenerates from both sides of the border.”<sup>75</sup> Similarly, Mexican Federal Police Chief Facundo Rosas has stated, “If you control the city (Ciudad Juarez), you control the drugs.”<sup>76</sup>

For one to fathom the Sinaloa Cartel’s overall control of Juarez, it is imperative to examine the situation of Mexico through the lens of state-society conflict. Starting in the days of the Spanish conquistadors, Mexican government has always had a difficult time controlling its peripheral regions.<sup>77</sup> A state-society relation is defined as

Interactions between state institutions and societal groups to negotiate how to exercise public authority and how people can influence it. They are focused on issues such as defining the mutual rights and obligations of

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<sup>71</sup> Sylvia Longmire, *Cartel, The Coming Invasion of Mexico’s Drug Wars* (New York: Palgrave Macmillan, 2011), 27.

<sup>72</sup> Ibid.

<sup>73</sup> Ibid.

<sup>74</sup> Associated Press, “Sinaloa Cartel Takes Ciudad Juarez,” *Borderland Beat* (blog), April 9, 2010, <http://www.borderlandbeat.com/2010/04/sinaloa-cartel-takes-ciudad-juarez.html>.

<sup>75</sup> Helen Redmond, “The Political Economy of Mexico’s Drug War,” *International Socialist Review*, no. 90, accessed February 27, 2016, <http://isreview.org/issue/90/political-economy-mexicos-drug-war>.

<sup>76</sup> Associated Press, “Sinaloa Cartel Takes Ciudad Juarez.”

<sup>77</sup> Matthew Restall, “Under the Lordship of the King: The Myth of Completion,” in *Seven Myths of the Spanish Conquest*, ed. Matthew Restall (New York: Oxford University Press, 2003), 64–76.



state and society, negotiating how public resources should be allocated and establishing different modes of representation and accountability.<sup>78</sup>

As a result, the state and society together determines how the state exercises both the power and the enforcement of laws. Likewise, in the context of the Sinaloa Cartel and the city of Juarez during the Calderon administration, the combination of the Cartel and the state institution simultaneously created a perfect breeding ground, which was a stepping stone to cartel diversification. This has propelled the Sinaloa organization to be one of the largest criminal entities in the world.

When President Calderon first took office in 2006, one of the first implementations of his administration was to utilize the state institutions to crush the DTOs that were causing havoc, both socially and economically, in Mexico. To accomplish this task, the president “dispatched military troops and federal police to confront narco-violence . . . followed by an additional 10,000 troops to Ciudad Juarez in 2009.”<sup>79</sup> The president’s overall objective was to establish the government’s position firmly as the power of the state. His overall effort to combat the DTOs—more specifically the Sinaloa Cartel as it was the largest organization in the territory—was very costly to both the society and to the state. As a result, “Ciudad Juarez experienced a wave of violence with spikes in homicides, extortion, kidnapping, and theft—at one point reportedly experiencing 10 murders a day.”<sup>80</sup> Nevertheless, the signs of state pursuit of the Sinaloa Cartel showed. Within four years in office, Caldron’s administration has successfully “seized over 114 tons of cocaine, 11,000 tons of marijuana, 75 tons of methamphetamines, 100,000 drug-associated vehicles, and \$1 billion USD in cash,”<sup>81</sup> and the administration’s efforts were showing promising signs of moving forward.

Nevertheless, what is ironic about all these statistics is that on paper, through an aggressive pursuit of the Sinaloa Cartel, the state has managed a successful way forward;

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<sup>78</sup> Huma Haider, “State-society Relations: Overview,” GSDRC, last modified December 2011, <http://www.gsdrc.org/topic-guides/state-society-relations-and-citizenship/state-society-relations-overview/>.

<sup>79</sup> Gene Bolton, “Calderón’s Drug War: Was the Juice Worth the Squeeze?,” Council on Hemispheric Relations, September 26, 2012, <http://www.coha.org/calderons-drug-war-was-the-juice-worth-the-squeeze/>.

<sup>80</sup> Beittel, *Mexico*, 17.

<sup>81</sup> Bolton, “Calderón’s Drug War.”

yet, the reality was different. To the state's dismay, the Sinaloa Cartel has remained dominant clandestine organization in the city of Juarez. The Sinaloa Cartel successfully challenges the state, further expanding its presence throughout different bordering cities to diversify its drug business.<sup>82</sup>

The success of the Sinaloa Cartel can be attributed to the successful workings of the cartel and the state officials. As noted before, the Sinaloa Cartel directly pushes bribery as one of its most effective weapons in its arsenal. An analysis of DTO member arrest data, conducted by *National Public Radio* (NPR), concludes that through the usage of bribery, the Sinaloa Cartel has successfully achieved one of its missions. As seen by the percentage of arrested cartel members in Figure 2, the data illustrates that the crackdown of DTOs done by the Mexican government "has not hit the Sinaloans as hard as it has other cartels."<sup>83</sup>

Likewise, Mexican police and politicians are known to be highly susceptible to bribes. According to Transparency International, an agency that measures the level of state corruption, Mexico scored 35 out of 100 (zero being highly corrupt and 100 being very clean.)<sup>84</sup> Moreover, when surveyed by the same agency of the public regarding the view of Mexican political parties and police of corruption, general consensus was that the public perceived them to be extremely corrupt.<sup>85</sup>

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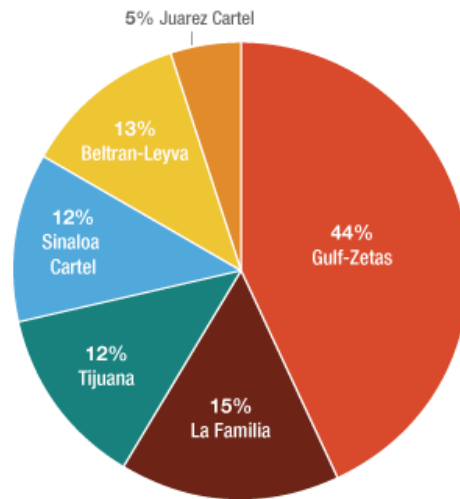
<sup>82</sup> Redmond, "Mexico's Drug War."

<sup>83</sup> Burnett, Penaloza, and Benincasa, "Mexico Seems to Favor Sinaloa Cartel."

<sup>84</sup> Transparency International, "Corruption by Country/Territory—Mexico," Transparency International, accessed March 13, 2016, <https://www.transparency.org/country/#MEX>.

<sup>85</sup> Ibid.

Figure 2. Arrest of Cartel Members<sup>86</sup>



The successful workings of the Sinaloa Cartel and the state can be traced back to NAFTA. The implementation of NAFTA, which brought in foreign direct investments (FDI), quickly decimated the Mexican state-owned economy. Moreover, instead of creating better opportunities for the Mexican population as NAFTA was originally intended, it destroyed their livelihood. With the implementation of NAFTA, the communal land sharing system known as “*ejido*”<sup>87</sup> was discarded, and the only viable earning option was to work in the foreign-owned *maquiladoras*, which paid a mere six dollars a day, leaving many in poverty without much help from the state.

Quickly taking advantage of the unfortunate situation, El Chapo, now seen as a leader figure by the regularly suppressed people by the weak, corrupt government, used his wealth to buy out many of the bankrupted factories in Juarez to set up both licit and illicit businesses without much interference from the state as a way to launder money.<sup>88</sup> For many of the unemployed, their priority was survival, rather than the morality of working for the Sinaloa DTO. With such following, the Sinaloa Cartel continued to

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<sup>86</sup> Source: John Burnett, Marisa Penalosa, and Robert Benincasa, “Mexico Seems to Favor Sinaloa Cartel in Drug War: NPR,” *NPR*, June 1, 2011, <http://www.npr.org/2010/05/19/126906809/mexico-seems-to-favor-sinaloa-cartel-in-drug-war>.

<sup>87</sup> Redmond, “Mexico’s Drug War.”

<sup>88</sup> Malcolm Beith, *The Last Narco: Inside the Hunt for El Chapo, the World’s Most Wanted Drug Lord* (New York: Grove Press, 2010), 175.

diversify business successfully into new drugs, such as methamphetamine, and placed newly hired employees on their payroll as opium farmers, drug distributors, drivers, chemists, informants, and as *sicarios* (hired assassins). Also, the Sinaloa Cartel successfully structured many licit type business to launder dirty money right front of the eyes of the weak Mexican government.<sup>89</sup> As long as the Sinaloa Cartel has police and federal officials on its payroll, it will undoubtedly continue to diversify to make profit and to continue its prosperous empire.<sup>90</sup>

The experiences witnessed in Juarez regarding Sinaloa's diversification showcases that the weak Mexican state does motivate DTOs to diversify their business to meet the needs of the population demand. As evidenced by the actions of the Sinaloa DTO in Juarez and its success in corrupting the local government to dominate one of the more lucrative bordering cities in Mexico, the weak state hypothesis is a strong case in determining why DTOs diversify, but as it is a constant, it may be necessary but insufficient condition for perceived diversification.

#### **4. The Competition**

In theory, the competition model hypothesizes that the Sinaloa Cartel will continue to diversify into a new business ventures to minimize competition. To conclude, this hypothesis as plausible, it is important to understand that the Sinaloa Cartel will have to be already established in a thriving market and forcefully tries to diversify into a new business market either to create an alliance or to drive-off another cartel to gain *conglomerate power*.

In the ranking of the most powerful DTOs in Mexico, the Sinaloa Cartel is still considered to be the most powerful and influential.<sup>91</sup> Unlike many of the other DTOs that are moving into non-drug related, illicit businesses for added revenue, the powerhouse of

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<sup>89</sup> "The Drug Traffickers Who Pay Taxes in Sinaloa, Mexico," Insight Crime, April 2, 2015, <http://www.insightcrime.org/news-analysis/the-drug-traffickers-who-pay-taxes-in-sinaloa-mexico>.

<sup>90</sup> Lewis Dean, "Why Are the Sinaloa Cartel the World's Most Powerful Gangsters?," *International Business Times UK*, September 16, 2014, <http://www.ibtimes.co.uk/why-are-sinaloa-cartel-worlds-most-powerful-gangsters-1465574>.

<sup>91</sup> Malcolm Beith, "The Current State of Mexico's Many Drug Cartels," Insight Crime, September 25, 2013, <http://www.insightcrime.org/news-analysis/the-current-state-of-mexicos-many-drug-cartels>.

the Sinaloa Federation still derives the bulk of its revenues from diversification of drug production and trafficking.<sup>92</sup> The drug trafficking business is recognized by experts as a complex and precarious endeavor. The shipping of drugs mirrors that of licit commodities; the more complex the route and the more hands the commodity (or drug) passes through, the higher the price. In the drug trafficking business, such as the one the Sinaloa is involved in, each of additional territory or *plaza* that the drug product passes through that is not controlled by the Sinaloa increases the price—ultimately making its products less competitive. Therefore, to maximize profit most efficiently, Sinaloa Cartel has to expand out its reach—to Central America as an example—in order to reduce shipping risk for drugs imported from South America. Due to this economic reason, the organization has a reason to expand and have opportunities to diversify into additional localized product offerings.

The Central America example is an interesting one; however, it is nothing more than preexisting evolution of the region. DTOs in Central America have been present from the days of Colombian DTOs trafficking Colombian cultivated drugs into the United States with routes through Central America. At the time of the Colombian DTO's dominance, Mexican DTOs, such as the Sinaloa, were only considered as “donkeys,” not a major threat to the regional stability.<sup>93</sup> However, after the deterrence of the Colombian DTOs, the dynamics of the region have evolved.

More recently, Mexico's fight against drugs, then led by Mexican president Felipe Calderon with the help from the U.S. law enforcement further jeopardized the safety of the drug trafficking in Mexico. Ultimately, this caused a side-effect phenomenon called the “cockroach effect.”<sup>94</sup> As argued by Bruce Bagley, the cockroach effect notion derives from the image of the scattering of kitchen cockroaches when lights are turned on. Likewise, the Sinaloa Cartel, under the pressure from the Mexican government, has

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<sup>92</sup> Mazzitelli, *Mexican Cartels*, 18.

<sup>93</sup> Ray Walser, “Mexico, Drug Cartels, and the Merida Initiative: A Fight We Cannot Afford to Lose,” Heritage Foundation, July 28, 2008, <http://www.heritage.org/research/reports/2008/07/mexico-drug-cartels-and-the-merida-initiative-a-fight-we-cannot-afford-to-lose>.

<sup>94</sup> Bruce Bagley, “Agrarian Ideas for a Developing World: Essay on Drug Trends by Bruce Bagley,” *Agrarian Ideas* (blog), March 24, 2011, <http://agrarianideas.blogspot.com/2011/03/essay-on-drug-trends-by-bruce-bagley.html>.

“sought to move at least part of their smuggling operations from Mexico into neighboring countries.”<sup>95</sup>

The form of the Sinaloa Cartel’s territorial expansion in its core echoes their operation within the Mexican territory and its consequent cannibalization of other DTOs operating within its boundaries. Here, the careful observation of the Sinaloa Cartel suggests that as a dominant drug producing and trafficking organization, the determinant factor of whether to diversify into other types of drugs and expansion of its presence to other territories is done to ensure its future prosperity in both developing and successfully trafficking the cultivated drugs into the U.S. and to other emerging markets. As noted by Eduardo Guerrero-Gutierrez, an award winning political analyst, the Sinaloa DTO’s successful diversification of product offering likewise is in direct relation of its market expansion and the “drug trafficking ridden violence,”<sup>96</sup> which follows an organizational development to maintain “control over drug trafficking routes, points of entry and exit, and distribution markets.”<sup>97</sup> Following the biggest drug seizure in Australia in June 2010, where the price of cocaine is “two to three times higher than the U.S. or Europe,”<sup>98</sup> the Australian authorities confirmed the presence of the Sinaloa Cartel in its local market.<sup>99</sup> Likewise, two years prior, the Malaysian authorities seized a methamphetamine lab and apprehended a group who they believed belonged to the Sinaloa DTO.<sup>100</sup>

As stated before, for the Sinaloa Cartel to successfully diversify and increase its capacity, the organization requires *conglomerate power*. However, the war waged by the government at all different levels against the Sinaloa Cartel has pushed the organization to find alternative ways to further improve its professionalization. In a fashion similar to

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<sup>95</sup> Ibid.

<sup>96</sup> Eduardo Guerrero-Gutierrez, *Security, Drugs, and Violence in Mexico: A Survey* (Washington DC: Lantia Consultores, S.C., 2011), 10.

<sup>97</sup> Ibid.

<sup>98</sup> Elyssa Pachico, “Sinaloa Cartel Expands Reach in Peru, Australia,” *Insight Crime*, January 3, 2011, <http://www.insightcrime.org/news-analysis/sinaloa-cartel-expands-reach-in-peru-australia>.

<sup>99</sup> “The Sinaloa Cartel is Questioning the Authorities in Australia,” *CNN Mexico*, September 15, 2010, [mexico.cnn.com/nacional/2010/09/15/el-cartel-de-sinaloa-pone-en-jaque-a-las-autoridades-de-australia](http://mexico.cnn.com/nacional/2010/09/15/el-cartel-de-sinaloa-pone-en-jaque-a-las-autoridades-de-australia).

<sup>100</sup> Alexandra Olson, “Mexicans Busted for Making Meth—in Malaysia,” *NBC News*, April 24, 2011, <http://www.nbcnews.com/id/42739155/>.

corporate mergers, one of the revenues that the Sinaloa Cartel has professionalized further is the outsourcing of many of its specialized services to its army of established local gangs. Although the main concentration of the Sinaloa DTO is drugs, the localized gangs provide the organization with many benefits to further legitimize its *conglomerate power* such as “drug-deals, enforcements, freight transport, distribution and sales”<sup>101</sup> in addition to human trafficking, kidnapping, extortion, mineral theft, and other types of organized crime activities in support of its main product, narcotics.

In addition to Sinaloa’s sphere of influence throughout the world, its diversified activities indicate that the Sinaloa Cartel has to an extent, legitimized its *conglomerate power* within the clandestine market and for that reason alone, it has reasons to further diversify its product portfolio to stay on top. The Sinaloa DTO—unlike many of other Mexican DTOs—mostly profits from drug sales. For Sinaloa to maximize its presence and position within the clandestine industry, its most viable option is to consistently align itself with other organizations to fully utilize its resources and diversify its product offerings so as to continuously evolve and be step ahead of all the other DTOs in the market.

#### **D. CHAPTER CONCLUSION**

The Sinaloa’s clandestine market constantly shifts parallel to the licit market. As the market takes a turn for a particular product, which hinders revenues, a corporation, even an illicit one, has to find new ways to balance its overall success. Sinaloa’s drug market is a significant portion of its overall success. However, as the legalization of marijuana takes place in the United States, it quickly needed to find an alternative market that could potentially use its already established resources to recoup some or all of its losses with the decline in the marijuana sales. In addition, the success of the Sinaloa rested on its keen ability to pay off state officials through bribing and usage of its already established networks of drug trails to diversify slowly into foreign territories and the mineral industry with the assistance from the Colombian FARC. With the desire to survive and stay on the top of the clandestine food-chain through its offering the

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<sup>101</sup> Guerrero-Gutierrez, *Security, Drugs, and Violence*, 38.

*conglomerate power*, El Chapo's way of extending diversification of product portfolio was the only viable option.

The final examination of the four hypotheses tells us that Sinaloa's characteristics and actions are all applicable as an explanation of its motives to diversify. However, out of the four hypotheses, the current situation of marijuana legalization in the United States and expansion of the world electronics best suits the reason why Sinaloa DTO is aggressively seeking to diversify into new business. As the organization's ultimate goal in the clandestine industry is continued survival, as one market loses revenue, the Sinaloa will quickly improvise its resources to seek new market to offset the loss. Likewise, as demands for a specific product goes up, El Chapo and his team will be highly motivated to fulfill the opportunity always to be a step ahead of the competition.



### **III. LOS ZETAS DRUG TRAFFICKING ORGANIZATION**

#### **A. INTRODUCTION**

This chapter of the thesis recounts the characteristics and the behaviors of Los Zetas drug trafficking organization. The cartel, which many still consider as the most terrifying organization that has ever existed in Mexico, still continues to hold its ground and uses military tactics in a similar fashion to the Islamic State of Iraq and Syria (ISIS).<sup>102</sup> Similar to Chapter II, through the recalls of past organizational behaviors by understanding its formation and the internal structure, the chapter offers a base understanding of the organization to be compared to other cartels in this thesis to conclude potential motivating factors that leads the Zetas to diversify.

The chapter briefly reviews the background of the cartel, its internal structure, and follows with the testing of the hypothesis to better understand the motivations that encourage the Zetas to diversify its business. In this chapter, I argue that Sinaloa and Zetas DTOs both diversify due to similar motives. However, as similar as they both are, Los Zetas, who are not as specialized as the Sinaloa DTO, have to rely on smaller and weaker organizations to earn their money. Therefore, as much as Zetas would like to be an independent organization for simplicity, the competition side of their business will have to always be a step ahead of everyone else for them to thrive.

#### **B. BACKGROUND**

Los Zetas, established in the late 1990s, is one of the most feared cartels in Mexico. It started when a group of defectors from the special operations unit of the Mexican army, known as the Airborne Special Forces Group (GAFES),<sup>103</sup> were hired to protect the business and the livelihood of Osiel Cardenas Guillen, the founder and the

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<sup>102</sup> Ildefonso Ortiz, "Warning Graphic: 9 Reasons to Fear Mexican Cartels More Than ISIS," Breitbart, January 12, 2016, <http://www.breitbart.com/texas/2016/01/12/9-reasons-to-fear-mexican-cartels-more-than-isis/>.

<sup>103</sup> George W. Grayson and Samuel Logan, *The Executioner's Men: Los Zetas, Rogue Soldiers, Criminal Entrepreneurs, and the Shadow State They Created* (New Brunswick, NJ: Transaction Publishers, 2012), 5.

kingpin of the infamous Gulf DTO. According to Osiel regarding the decision to hire GAFES forces, he “wanted the best men possible”<sup>104</sup> to guard him and his enterprise. An interesting fact relating to the start of the Zetas was that as the special forces organization that were originally trained to fight and to enforce anti-drug tactics against the Mexican DTOs were now part of an organization that supplied narcotics throughout the world.

The formation of the Zetas was a new chapter in the Mexican clandestine industry. The Zetas’ members—unlike traditional cartel members—were professionally trained by the GAFES, which modeled its training style after the U.S. Special Forces.<sup>105</sup> According to Sylvia Longmire, a retired former special agent with the Air Force Office of Special Investigations:

Reportedly trained at Fort Benning, Georgia, in special tactics, surveillance and counter surveillance, urban warfare, prison escape, hostage rescue, explosive use, and high-tech communications. This training, in addition to virtually unlimited funding and an arsenal akin to a small army, makes Los Zetas one of the most formidable enforcement groups in Mexico.<sup>106</sup>

The professionalism taught through the military special forces training, now immersed within the underground industry, brought forth new tactics of barbarism and radical fighting techniques that the society has never witnessed before. The initial uprising of Los Zetas kick-started a new form of cartel and cartel brutality; the military tactics used by the Zetas continuously challenge the sovereignty of Mexico. More importantly, however, the violent influence brought forth by Los Zetas overall contributed to the Gulf DTO’s overall business interest.

An important aspect regarding Los Zetas that one has to understand in the Mexican context is that as a branch of enforcers of the Gulf Cartel, the Zetas, eventually grew to a point where the parent organization had problems controlling them. Los Zetas’ capacity and brutal procedures went out of control after Osiel’s arrest in 2003 and his

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<sup>104</sup> Ibid.

<sup>105</sup> Ibid.

<sup>106</sup> Sylvia Longmire, “Los Linces, Mexican Drug War Contemporaries of Los Zetas,” accessed April 2, 2016, [www.mexidata.info/id2361.html](http://www.mexidata.info/id2361.html).

eventual extradition to the United States in 2007. After removal of Osiel, Los Zetas “led by Heriberto Lazcano Lazcano and Jaime Gonzales-Duran . . . Forced their way into the upper echelons of the Gulf hierarchy and began their supply and distribution network.”<sup>107</sup> Moreover, with additional instruction from Los Kaibiles—former Guatemalan army commandos—Los Zetas was the first organization in Mexico to use the basic premise of the psychological operations (PSYOPS) to their advantage.<sup>108</sup> Their innovative, militarized characteristics further legitimize their street “cred” (credibility)<sup>109</sup> and branded their particular organizational image as separate from their parent organization, the Gulf DTO.<sup>110</sup> As one U.S. official has stated, “The Gulf cartel created the lion, but now the lion has wised up and controls the handler.”<sup>111</sup>

Unlike the Sinaloa DTO in Chapter II, from its geneses, Los Zetas organization has been using brutal violence and fear tactics to form the organizational image and to disseminate specific messages to other organizational entities. Distinctly different to many of its counterpart drug trafficking organizations, the Zetas are more of a transnational criminal organization (TCO) or criminal organization (CO) rather than a drug trafficking organization. They have become a huge threat to other DTOs in Mexico. As stated by El Chapo’s view of the Zetas for the Mexican people:

Without the ‘Z’ you will live without fear. . . . If you are a Zeta, run because the MONSTER is coming . . . The new alliance have raised their weapons to f\*\*k the Zetas because they have undermined the drug trafficking business with their kidnappings, extortions, etc. To sum it up, they don’t give a s\*\*t about the freedom and tranquility of the Mexican people.<sup>112</sup>

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<sup>107</sup> Hal Brands, “Los Zetas: Inside Mexico’s Most Dangerous Drug Gang,” *Air & Space Power Journal*, October 1, 2009, <http://www.au.af.mil/au/afri/aspj/apjinternational/apj-s/2009/3tri09/brandseng.htm>.

<sup>108</sup> Samuel Logan, “Preface: Los Zetas and a New Barbarism,” *Small Wars & Insurgencies* 25, no. 5 (2011): 722, doi:10.1080/09592318.2011.620809. 718–727.

<sup>109</sup> Grayson, *The Cartels*, 58.

<sup>110</sup> John P. Sullivan, and Samuel Logan, “Los Zetas: Massacres, Assassinations and Infantry Tactics,” *Counter Terrorist*, November 24, 2010, <http://www.homeland1.com/domestic-international-terrorism/articles/913612-Los-Zetas-Massacres-Assassinations-and-Infantry-Tactics/>.

<sup>111</sup> Brands, “Los Zetas.”

<sup>112</sup> Grayson, *The Cartels*, 19.

The Zetas' organizational image has in essence legitimized the existence of the Zetas and revealed to other DTOs that the rise of Los Zetas and their rapid diversification could potentially lead to concerns of rapid change of the clandestine landscape. However, the actual reason that Los Zetas have their hands in different diversifications is a result of a significant misfortune that occurred while being the right-hand protector of the Gulf DTO. Before the capture of Cardenas and his eventual extradition to the United States on charges of vice types of activities, Osiel "never tutored Los Zetas in Narco-trafficking."<sup>113</sup> Without the proper, secretive knowledge of narcotics-trafficking and without the contacts of the Andean and the Colombian suppliers—which are essential to run a legitimate drug-trafficking business—the only other method of generating revenue to further legitimize their existence was to maximize their business diversification into other vice types of activities.<sup>114</sup>

It is interesting to note that the Zetas' introduction to the Mexican underground industry did in fact directly affect the environment. Now, it is challenging for me to state that the rise in human deaths in Mexico the years after the inauguration of the Zetas was in direct relation to Los Zetas' actions. Nevertheless, according to STRATFOR's report on Mexico's drug war, it recorded that starting from 2010, the year when the Zetas separated from the Gulf DTO, the numbers of reported murders raised significantly. According to the report, in 2006, the reported murder cases in Mexico were 11,806, while "subsequently, there were 10,253 murders in 2007, 13,155 in 2008, 16,118 in 2009, 20,681 in 2010."<sup>115</sup> As stated earlier, it is impossible to blame the Zetas directly for all the murders in Mexico. One could only assume that the escalation of deaths could have been attributed by the uprising of the Zetas in Mexico's all-against-all conflict between the "cartels vs. Zetas vs. the police, military, and increasingly, the state itself."<sup>116</sup> However, one thing is for sure. After the fragmentation of Los Zetas from the Gulf DTO, Mexico was witnessing more violent deaths.

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<sup>113</sup> Ibid., 57.

<sup>114</sup> Ibid., 58.

<sup>115</sup> Stratfor, "Spring Break in Mexico 2013: Security Risks and Travel Tips," Stratfor, March 7, 2013, <https://www.stratfor.com/analysis/spring-break-mexico-2013-security-risks-and-travel-tips>.

<sup>116</sup> Sullivan, and Logan, "Los Zetas."

### C. INTERNAL STRUCTURE

In a similar fashion to the Sinaloa cartel described in Chapter II, Los Zetas performs and behaves as an organization with a corporate vision that is beyond that of a typical street gang. The initial screening of the organization may have one thinking that as an organization would exhibit tendencies of rigidity due to the concrete hierarchical internal structure, which is similar to the military. Nevertheless, through more detailed examination of the organizational structure exposes that the Zetas are more structured and performs more like a corporate enterprise—a corporate enterprise structure that can function in both, small- and large-scale business operation over a large territory.

As stated in the above section on the cartel's background, the actual meat of the organization does not revolve around the drug trade; instead, it has developed around providing protection for the organizations that operate within its controlled territories by creating localized presence or "cells."<sup>117</sup> Experts see the Zetas as a franchiser of business, such as how Burger King restaurants are franchises of the parent organization. In the lens of Los Zetas, the more franchises, or cells that one has in a given territory, the more cells can diversify into other businesses, ultimately bringing in more money for the parent company as "they take their money as a slice of the income of the local franchisees."<sup>118</sup> As stated by Mazzitelli,

if the Sinaloa cartel has all the features of a traditional criminal organization, in the sense of aiming to 'control the production, supply and distribution of a given commodity or service unlawfully,' then the Zetas are much closer to a typical Mafia organization, whose aim is 'controlling the supply of protection' in the territory where they are established.<sup>119</sup>

In their core of operations, the Sinaloa and the Zetas business practices are significantly polarized. Unlike the modified linear type hierarchy of the Sinaloa that is to an extent transparent, the Zetas' hierarchical structure is not as well defined. Again, according to Mazzitelli, "their (para) military origin, the lack of specialization in any

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<sup>117</sup> Mazzitelli, *Mexican Cartels*, 18.

<sup>118</sup> "'Narconomics': How The Drug Cartels Operate Like Wal-Mart and McDonald's," Fresh Air, NPR, February 15, 2016, <http://www.npr.org/2016/02/15/466491812/narconomics-how-the-drug-cartels-operate-like-wal-mart-and-mcdonalds>.

<sup>119</sup> Mazzitelli, *Mexican Cartels*, 17.

particular criminal business, a few media reports and anecdotes on their expansion in Mexico and the region, seem to suggest . . . A kind of ‘feudal’ system model.”<sup>120</sup> This feudal system that Mazzitelli is referring to is a progressive system wherein cells are built whenever the Zetas overtake a specific territory. They established a self-sustaining branch of operation, which does not always require full chain-of-command approval to conduct business. As referenced by Emerging Markets Political Risk Analysis (EMPRA), a political risk advisory group regarding Zetas structure

is both rigidly hierarchical (original members were known as Z-1, Z-3, etc. according to their rank in the organization) while at the same time significantly decentralized. Regional bosses are relatively well-controlled, yet maintain a great deal of discretion as to how they will meet their annual financial goals.<sup>121</sup>

Likewise, the self-operating cultures of each cell within the Zetas’ internal structure, in addition to the constant need to expand its territorial control to sustain the upkeep of the organization, will eventually lead to atomization and separation of individual cells. So far, Los Zetas’ gameplay of atomization through the creation of new cells has undoubtedly worked for the organization. The rapidly expanding cellular network leads us to believe that in the short run, if the Zetas can properly exercise the use of violence, the method of expansion will most likely work. However, as soon as the organization loses its ability to police each and individual cells, havoc could break loose.

#### **D. TESTING OF THE HYPOTHESIS**

As stated previously Los Zetas organization is both similar to and different from the Sinaloa cartel. Through the testing of the following four hypotheses, my intentions are to note the subtle and major similarities and difference between the two national level cartels when it comes to their motivation for business diversification.

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<sup>120</sup> Ibid., 20.

<sup>121</sup> Mazzitelli, *Mexican Cartels*, 20.

## 1. Resource Exploitation

The resource exploitation hypothesis for Los Zetas agrees that the reason for diversification of their business portfolio is due to holding excess resources, such as territory, manpower, and physical assets, which could otherwise be generating additional profits. For Los Zetas, possessing vast amounts of tightly controlled territories, in addition to weapons and willing members who are committed to the organization, opens up additional criminal opportunities—such as kidnapping and extortion. These opportunities may provide Los Zetas the motivation to diversify to fill the underutilized assets.

The tightening of pressure from the Mexican law enforcement and the military on the organization may be causing Los Zetas to diversify into new avenues to generate money. President Calderon has claimed that his administration's success is the sole reason that the gangsters and DTOs alike are turning in desperation to extortion and kidnapping.<sup>122</sup> However, for an organization such as Los Zetas, whose primary job is not selling drugs—abduction and extortion are both attractive options of diversification. At the end of the day, the extortion and kidnapping profits are very handsome. According to Segura of Reuters, “Tragic but lucrative . . . Extortion fees over the six months totaled more than a half million dollars—ranging from \$200 to \$85,000.”<sup>123</sup> Likewise, kidnapping can also be very lucrative if done correctly. Mexico, a country rampant with criminal organizations that will not hesitate to kidnap for a price, are demanding ransom payments upwards of \$300,000 or more for victims.<sup>124</sup> This is a figure that many times the victims cannot fathom and have no hope of paying.

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<sup>122</sup> Ioan Grillo, “Mexico’s Cartels Move into Extortion,” *Tucson Sentinel*, September 6, 2011, [http://www.tucson sentinel.com/nationworld/report/090611\\_mexico\\_cartels\\_bribes/mexicos-cartels-move-into-extortion/](http://www.tucson sentinel.com/nationworld/report/090611_mexico_cartels_bribes/mexicos-cartels-move-into-extortion/).

<sup>123</sup> Lorena Segura, and Mica Rosenberg, “Mass Kidnappings New Cash Cow for Mexico Drug Gangs,” Reuters, April 11, 2011, <http://www.reuters.com/article/us-mexico-drugs-migrants-idUSTRE73A2D220110411>.

<sup>124</sup> Joshua Partlow, “Kidnappings in Mexico Surge to the Highest Number on Record,” *Washington Post*, August 15, 2014, [https://www.washingtonpost.com/world/the\\_americas/kidnappings-in-mexico-surge-to-the-highest-number-on-record/2014/08/15/3f8ee2d2-1e6e-11e4-82f9-2cd6fa8da5c4\\_story.html](https://www.washingtonpost.com/world/the_americas/kidnappings-in-mexico-surge-to-the-highest-number-on-record/2014/08/15/3f8ee2d2-1e6e-11e4-82f9-2cd6fa8da5c4_story.html).

If the Zetas control vast amounts of Mexican territory by collecting *piso* from smaller organizations and are constantly pressured by the government to seize drug trafficking operations, why not diversify into other means of profit? Moreover, with Zetas' ownership of fighters who are willing to work, putting them to work to kidnap and extort businesses surely generates easy money.

Los Zetas' internal structure is also set up in a way that will benefit its diversification into kidnapping and extortion. Because the structured organization is a franchised style utilizing its individual territorial cells, the organization could potentially generate money when the individual's cells make profits. Payments to the contracted killers who would commit crimes on behalf of Zetas would be kept to a minimum by "giving them [group members] permission to kidnap, extort and steal,"<sup>125</sup> rather than paying them in cash up front. Moreover, on top of using the underutilized personnel within the organization, Los Zetas could also ramp up its ability to entice threat to state officials. Using the phrase "*plata o plomo*," or "silver or lead"—referring to accepting a bullet(death) or a bribe—mentality much like other DTOs, it is recorded that local governmental officials and local level law enforcements look the other way.

In the case of Los Zetas for underutilized resources, there is a high chance that they are in fact motivated to diversify into a new industry to fulfill their resources. Longmire writes that when kidnapped migrants cannot pay ransom to the Zetas, they offer the migrants the "opportunity" to work as one of its foot soldiers.<sup>126</sup> Facts such as this are discouraging; however, looking at the situation from a business perspective for Los Zetas, it is another opportunity that they can take advantage to grow and to profit.

## **2. The Push and Pull**

For Los Zetas, the diversification into the fuel theft industry perfectly complements to the economic push and pull hypothesis. For the push and pull hypothesis to be plausible, Los Zetas have to be either pushed or pulled into a specific industry due

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<sup>125</sup> Alejandro Hope, "Why Kidnapping, Extortion Boomed in Mexico," InsightCrime, November 19, 2015, <http://www.insightcrime.org/news-analysis/why-kidnapping-extortion-boomed-in-mexico>.

<sup>126</sup> Longmire, *Cartel*, 90.



to economic changes that are happening around them. For this hypothesis, I continue my examination, started in the weak state hypothesis section, of Los Zetas' entrance into the oil theft industry.

By examining the commodity price quotes for crude oil, shown in Figure 4, one can see the commodity price of oil had its share of ups and downs throughout the years. Overall though, other than a decrease in 2009, the oil price constantly stayed above \$70 a barrel until mid-2014.

Figure 3. Commodity Price Quotes for Crude Oil<sup>127</sup>



Due to the combination of high payout and the ease of accessibility of oil by Los Zetas, one could say that the high demand for oil—mostly from the United States, where roughly 71 percent of all Mexican oil ends up<sup>128</sup>—pulls criminal enterprises, such as Los Zetas who hope to find new means of revenue.<sup>129</sup> David Shields, an energy analyst, believes that the black-market of oil theft is a significant area where the criminal

<sup>127</sup> Source: NASDAQ, “Oil Price: Latest Price and Chart for Crude Oil,” NASDAQ, accessed April 3, 2016, <http://www.nasdaq.com/markets/crude-oil.aspx?timeframe=10y>.

<sup>128</sup> “Is Mexican Oil Good for America?,” Global Accessibility, November 27, 2015, <http://globalaccessibilitymap.com/is-mexican-oil-good-for-america/>.

<sup>129</sup> Clare R. Seelke et al., *Mexico’s Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States* (Washington, DC: Congressional Research Service, 2015), 14.

organizations can easily profit. He states that although PEMEX officials “insist they are losing less than 1% of their black gold to the bandits,”<sup>130</sup> out of the overall PEMEX revenue of more than \$100 billion dollars, Shields calculates that in practicality, the loss is around “\$2 billion to \$4 billion annually.”<sup>131</sup> The truth is that the state simply does not have the capacity to police all the diversified activities run by the clandestine enterprises, perhaps leading PEMEX to downplay the significance of the oil thefts.

The opportunities in the Mexican states of Tamaulipas and Veracruz illustrate a point for why Los Zetas are pulled into oil theft diversification. In recent years, the territories of Tamaulipas and Veracruz, which are controlled by Los Zetas, experienced significant growth in petroleum activities through government contracted “exploration, extraction, and production activities of existing oil and natural gas fields.”<sup>132</sup> Both Tamaulipas and Veracruz are major cash cows for Mexico. Tamaulipas is the sole location of the Burgos gas basin, which employs over 3,500 employees, and Veracruz produces over “755 million barrels of crude oil and almost six thousand cubic feet of gas.”<sup>133</sup> Moreover, the port of Veracruz is responsible for the bulk of the nation’s export of oil through oil tankers, and the bulk of the state’s petrochemical, oil, and gas products eventually passes through the state of Veracruz to get to its final destination, making it a prime spot for oil theft.<sup>134</sup>

With annual oil revenue figures upwards of \$100 billion and ease of interception by the Zetas, incentive to diversify into the oil siphoning business is very high. Oil is a perfect commodity to steal by the Zetas. Unlike drugs, which will likely be illegal no

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<sup>130</sup> Ioan Grillo, “Stolen Oil: A Gusher of Cash for Mexican Drug Cartels,” *TIME*, March 9, 2011, <http://content.time.com/time/world/article/0,8599,2058007,00.html>.

<sup>131</sup> *Ibid.*

<sup>132</sup> Kathryn Haahr, *Addressing the Concerns of the Oil Industry: Security Challenges in Northeastern Mexico and Government Responses* (Washington, DC: Wilson Center Mexico Institute, 2015), [https://www.wilsoncenter.org/sites/default/files/Addressing%20the%20Concerns%20of%20the%20Oil%20Industry\\_0.pdf](https://www.wilsoncenter.org/sites/default/files/Addressing%20the%20Concerns%20of%20the%20Oil%20Industry_0.pdf), 7.

<sup>133</sup> *Ibid.*, 7.

<sup>134</sup> “Gigantesco Robo De Combustible En Veracruz: 289 Tomas Clandestinas [Gigantic Fuel Theft in Veracruz: 289 Clandestine Taps],” *Sociedad 3.0*, last modified April 8, 2014, <http://sociedadrespuntocero.com/2014/04/gigantesco-robo-de-combustible-en-veracruz-289-tomas-clandestinas/>.

matter who sells them, once successfully introduced into the licit supply-chain system, the stolen oil can be processed through legitimate company's refineries and legally distributed to be sold worldwide—further motivating Los Zetas to diversify.<sup>135</sup> This makes the push and pull hypothesis very plausible.

### **3. The Weak State**

The weak state hypothesis assumes that the capacity of the state to successfully combat or defend the illicit acts of Los Zetas DTO is insufficient. Because the weak state provides a vacuum in the economy and society in which the DTOs can breed and flourish, first, Los Zetas must recognize the weakness, adapt themselves to meet the criteria to fill the void, and maximize their opportunities to exploit their earning potential profits fully.

To examine the weak state hypothesis in Los Zetas context, I look into the fuel theft industry that is currently widespread in the state of Mexico. However, within the topic, I will be concentrating the weak state portion of the fuel theft, leaving the motivation to enter the fuel theft industry for the push and pull hypothesis later in this chapter.

If anyone has studied or been curious about Mexico and its clandestine industry, the topic of fuel theft will surely surface. Ever since the discovery and the establishment of the state-owned petroleum company, Petroleos Mexicanos (PEMEX), both the production of oil and its sales has been the center of the Mexican economy. According to the Council on Hemispheric Affairs (COHA) on Mexican oil, “profits on its extraction are the country's number one revenue, accounting for approximately 40 percent of Mexico's total revenues.”<sup>136</sup> The significance of this is that Mexico's inability to successfully revenue from its oil production will considerably hinder its overall economy.

Illegal tapping of the nation's oil pipeline is an increased threat to the livelihood to many of the Mexicans who live and work around the pipelines and the refineries. As

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<sup>135</sup> Grillo, “Stolen Oil.”

<sup>136</sup> Council on Hemispheric Relations, “Mexico: An Oil Nation in Crisis,” Council on Hemispheric Relations, October 22, 2009, <http://www.coha.org/mexico-an-oil-nation-in-crisis/>.

the criminal organizations slowly get more creative and siphon out oil, the efforts put forth by the Mexican federal government seem to be ignored by the organized crime groups, such as the Zetas. As reported by an article in *El Daily Post*, this has potentially cost the Mexican government upwards of \$1 billion dollars.<sup>137</sup> Still, more important than the loss of revenue is the deaths caused by fiery explosions triggered by improperly tapping the pipelines by inexperienced, incompetent criminal members.<sup>138</sup> As recorded in December 2010, a pipeline exploded after numerous tappings of the high-pressured oil pipelines owned by PEMEX<sup>139</sup>; the sources at the scene stated that the explosion caused an engulfing stream of black crude oil, which eventually sparked into “rivers of fire.”<sup>140</sup> The incident, which many blamed on Los Zetas, ultimately caused more than 20 deaths and injured more than 50.<sup>141</sup>

For the Zetas, the accessibility of the national oil within its controlled territory, and the lack of ability for the Mexican authorities to successfully stop them, has created a vacuum that the Zetas are exploiting. In an article titled: “Mexico Fuel Theft: Big Earner for the Zetas,” Cawley records that due to lack of enforcement by the Mexican authorities to stop oil pipeline tapping, “the number of illegal taps discovered in company pipelines has risen 1,548 percent since the year 2000.”<sup>142</sup> The shocking figure, which is probably underestimated, is simply difficult to comprehend. Likewise, to capitalize on this weakness, George Grayson states that Los Zetas take advantage of the inability of the authorities to threaten them and continue their vice activities.<sup>143</sup> Although illegal siphoning of PEMEX oil has occurred before the rise of Los Zetas, according to many experts, the significant spike in the quantity of oil theft started to increase in “PEMEX

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<sup>137</sup> Dwight Dyer, “Tapping Away: Fuel Theft Will Affect Pemex in 2016,” *El Daily Post*, September 10, 2015, <http://www.eldailypost.com/energy/2015/09/tapping-away-fuel-theft-will-affect-pemex-into-2016/>.

<sup>138</sup> *Ibid.*

<sup>139</sup> Ken Ellingwood, “27 Die in Oil Pipeline Explosion in Mexico,” *Los Angeles Times*, December 20, 2010, <http://articles.latimes.com/2010/dec/20/world/la-fg-1220-mexico-oil-explosion-20101220>.

<sup>140</sup> *Ibid.*

<sup>141</sup> *Ibid.*

<sup>142</sup> Marguerite Cawley, “Mexico Fuel Theft: Big Earner for the Zetas?,” *InSightCrime*, August 4, 2014, <http://www.insightcrime.org/news-briefs/mexico-fuel-theft-big-earner-zetas>.

<sup>143</sup> *Ibid.*

facilities in Zetas-controlled states like Nuevo Leon and Veracruz.”<sup>144</sup> These territories are the prime location where large numbers of oil thefts have occurred, and a significant percentage of arrests made in regards to oil theft were in some way tied to Zetas or their affiliated members.

As explained above, the biggest motivation for Los Zetas to diversify into the oil sector besides the economic pull is the ease of accessibility and low levels of state punishment once caught. As noted by *El Daily Post* writer, Dwight Dyer, as the state increases the arrests made for illegal siphoning of state-owned oil, many simply find ways to sneak out of the punishment.<sup>145</sup> He explains:

On July 31, 2015, Sergio Meza Flores, an alleged tapping kingpin in the state of Tabasco, was arrested by Army and Federal Police personnel following an investigation by the Federal Attorney General’s Office. Over 4,000 liters of gasoline, 25,000 liters of diesel and two tanker trucks were confiscated during the operation. However, despite the fact that the lower house of Congress stiffened criminal sanctions for fuel theft in November 2014, he was released on bail by a local judge on Aug. 28.<sup>146</sup>

It is difficult to prove that the local judge lacked integrity; however, as discussed in Chapter II on the Sinaloas, it is widely agreed that corruption of the state officials is very rampant. Like the Sinaloa DTO, through the use of petty corruption using the dirty money, Los Zetas are easily getting around the law. Similarly, without a secure, solid foundation of security in Mexico, the corruption will likely trickle down to the lowest positions within the PEMEX’s workforce—continuing to fund the Zetas while the state is consequently losing revenues that could potentially trickle down to the Mexican people and improve their wellbeing.

In principle, past experiences with the weak Mexican state as shown through the example of state’s inability to stop and punish cartel members from illegally tapping oil pipelines sheds light into the motives of the Zetas. Whenever Los Zetas recognize the

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<sup>144</sup> Patrick Corcoran, “Tougher Penalties for Oil Theft in Mexico Unlikely to Fix Problem,” InSightCrime, January 15, 2016, <http://www.insightcrime.org/news-analysis/tougher-penalties-oil-theft-mexico-unlikely-fix-problem>.

<sup>145</sup> Dyer, “Tapping Away.”

<sup>146</sup> Ibid.

weakness in the state's operation, they will seek to capitalize on the weakness and quickly diversify before other organizations can get involved.

#### **4. The Competition**

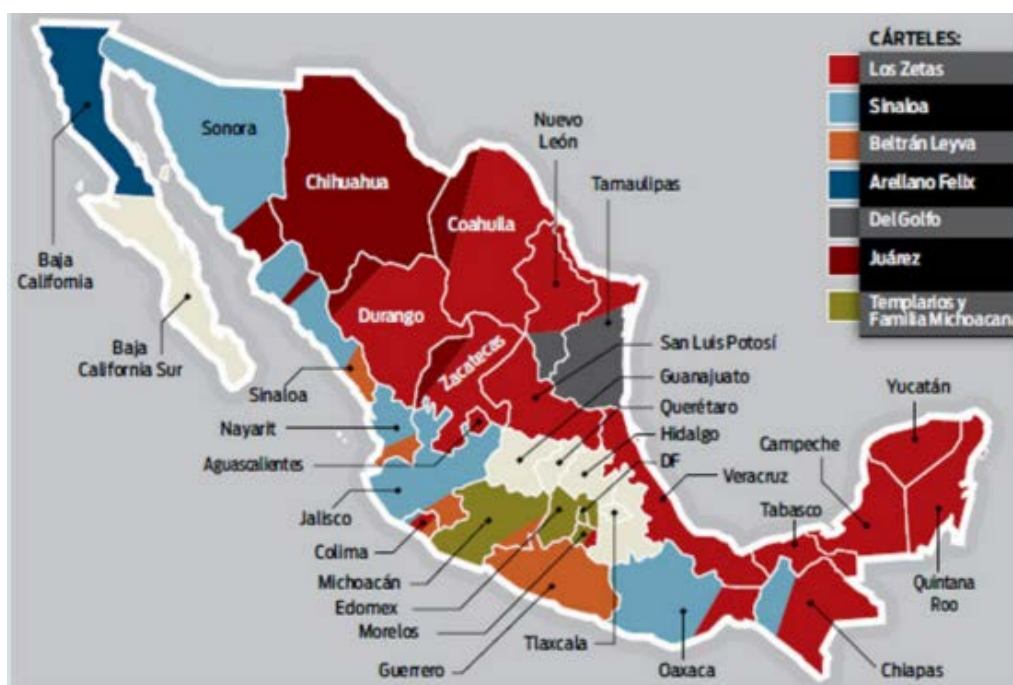
In theory, complementing the model tested in Chapter II, the competition model hypothesizes that Los Zetas cartel will continue to diversify into a new business adventure to minimize competition. To conclude that the competition model hypothesis is an accurate prediction, the point to understand is that the Zetas will already have to be involved in a thriving market of their own and forcefully diversify into a new business market either to create an alliance or to drive-off another cartel to gain *conglomerate power*.

In the world of Mexican underground industry, Los Zetas is a significant contender that relentlessly thrives on expanding its reach all across Mexico and beyond. An interesting fact regarding Los Zetas is the rate at which they have been expanding its diversified business. Unlike other DTOs in Mexico, Los Zetas organization at one point was known to be the king of the Mexican territory—prevailing in a minimum of 11 Mexican states and operating in, “350 Mexican municipalities,”<sup>147</sup> as shown by a Mexican newspaper *Excelsior* in Figure 3.

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<sup>147</sup> Steven Dudley and Viridiana Rios, “Why Mexico’s Zetas Expanded Faster Than Their Rivals,” InSight Crime, April 21, 2013, <http://www.insightcrime.org/news-analysis/why-mexicos-zetas-expanded-faster-rivals>.

Figure 4. Territorial Ownership by Various Mexican DTOs 2011<sup>148</sup>



Los Zetas way of competing with other Mexican DTOs for territorial ownership is relatively challenging to understand. Nevertheless, Steven Dudley attributes the success of the Zetas to their demonizing image and their lack of specialization in just one specific industry, as we have seen with the Sinaloa DTO with its drug trafficking. As stated previously, Los Zetas is cruel when it comes to business. Capitalizing on brutality, Los Zetas soon imaged themselves as the “lone wolf” organization within the Mexican clandestine industry—not looking to form any particular allies, just domination.<sup>149</sup> It is recognized by experts that “Los Zetas go out of their way to preserve their independence, which allows them to react quickly to changing circumstances.”<sup>150</sup> This indicates that independence may be the key to Los Zetas rapid success in business diversification.

<sup>148</sup> Source: Aurora Vega and Adriana Luna, “Los Zetas Son La Organización Delictiva Que Controla El Mayor Territorio [Los Zetas are the Criminal Organization that Controls the Most Territory],” *Excelsior*, October 11, 2011, <http://www.excelsior.com.mx/node/781921>.

<sup>149</sup> Dudley, and Rios, “Why Mexico’s Zetas Expanded Faster.”

<sup>150</sup> George W. Grayson, *The Evolution of Los Zetas in Mexico and Central America: Sadism as an Instrument of Cartel Warfare* (Carlisle Barracks: United States Army War College Press, 2014), 29.

To further endorse to their demonizing image, which has given the Zetas significant leverage over other DTOs, when Los Zetas took over an enemy's territory, Zetas foot soldiers did not just cripple their opponents; they shattered them inhumanely. With the rise of Los Zetas, the old generation of the drug trafficking organization or as one would say the "gentleman's organization" diminished. The traditional way of operating in the clandestine landscape; the "same way that the Italian Mafia did in America: family members were strictly off limits, and they didn't mark anyone for death unless they had a plausibly good reason"<sup>151</sup> were gone. The times were changing with the new era of criminal organizations that systematically attacked anyone who as in their way no matter who they were.

To test the competition hypothesis in the Zetas context, one needs to understand the Zetas mentality. Without alliances, how did Los Zetas grow so quickly? Again, according to Dudley, it is imperative to comprehend the Zetas origins and their way of looking at the business aspect of the whole clandestine landscape.<sup>152</sup> Unlike many of the other DTOs in Mexico, which are operating similarly to a legitimate corporation using the expensive infrastructure of the business model of diversification, Los Zetas realized one thing: they did not have the infrastructure to run any particular business, unlike the Sinaloa. Due to this significant misfortune, the Zetas turned to what they were good at and capitalized on it. They used their primitive tactics to take over a territory and controlled the criminal activities that were held within through the usage of individual cells.

To a degree, with the majority of the original 34 founding members either captured or killed by authorities, it is relatively difficult to parallel today's Zetas to the initial group that founded it. However, through the years of recruiting degenerates and training them in the original, military style tactics, I can safely state that the militarized culture is still embedded within the organization and this makes their informal business tactics work. Utilizing a one-goal mentality and brutal schemes, Los Zetas can overtake an already established territory, and establish their own *plaza* to collect *piso* (rent money)

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<sup>151</sup> Grayson, *The Cartels*, 28.

<sup>152</sup> Dudley, and Rios, "Why Mexico's Zetas Expanded Faster."



from criminal organizations that operate within their territory. By effectively enforcing their rule through force, Los Zetas, even without their own established infrastructures, can “diversify” their revenues by “extorting petty drug dealers, human traffickers, human smugglers, thieves and contraband traders.”<sup>153</sup> True, the Zetas do have some of their own personnel working in these industries, but it is less of a risk to have someone else do the dirty work on their behalf.

In summary, Los Zetas is a special breed of Mexican DTO. Because they do not play by the rules of the clandestine industry like the other similarly sized organizations, it is relatively difficult to know what they are doing and thus difficult to categorize the organization properly. Unlike the Sinaloa DTO, which is a conglomerate power when it comes to drugs, Zetas do not hold a conglomerate power in the drug industry; yet, Los Zetas do hold conglomerate power overall through its usage of the smaller organization within their territories that do offer many diversified products and services that can be traced back to the Zetas. Due to this reason alone, it is hard to state that the only motivation for Los Zetas to diversify is to kill off other organizations within a territory. Since the business model of the Zetas prefers is for themselves to be independent, yet they still requires other, smaller organizations, such as local gangs and weaker DTOs, to make the actual sale of the illicit products and services on their behalf, the competition model hypothesis could be a strong contender in predicting the motivations for Los Zetas’ diversification.

## **E. CHAPTER CONCLUSION**

Without a specific specialization of product offerings like the Sinaloa DTO, so far, Los Zetas has been successful at keeping in sync with the changing environment to meet their need to thrive and profit. When it comes to using the weak Mexican state to their advantage, Los Zetas’ conduct is nearly parallel to that of the Sinaloa DTO; they seek and find where the path of least resistant is within a given territory and bribe the officials to get their way. Likewise, as the globalization of the economy brings forth new

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<sup>153</sup> Ibid.

technologies that requires specific natural resources—such as oil—Los Zetas are pulled into new means of diversification to meet the demand, all while cashing in the profits.

The final analysis of the Zetas reveals that the organization in general is very similar to the Sinaloa DTO. Seeing that both Los Zetas and the Sinaloas are national-level cartels, it is no surprise. However, as similar as they both are, Los Zetas, who are not as specialized as the Sinaloa DTO, will have to constantly rely on smaller, weaker organizations to earn their money. Thus, as much as Zetas would like to operate independently, the competition side of their business will have to always be ahead of everyone else in order for them to obtain maximum profitability.

## IV. TIJUANA DRUG TRAFFICKING ORGANIZATION

### A. INTRODUCTION

This chapter analyzes the Tijuana cartel's past behaviors and its internal structure to delineate the similarities and differences of the cartel compared to the Sinaloa and Los Zetas. The purpose of comparing the Tijuana cartel to the Sinaloa and the Zetas cartel is to extract insights to help clarify why once a significantly successful organization has now lost its stance in the Mexican clandestine industry. The chapter first briefly goes over the Tijuana cartel's background, internal structure, and followed by the testing of the hypothesis to determine if the lack of diversification has limited its continued success.

### B. BACKGROUND

The Tijuana DTO, also known as the Arellano Felix Organization (AFO), is a toll-collecting cartel, which in the past has been described by many as one of the most fruitful and ruthless criminal organization in Mexico.<sup>154</sup> The Tijuana cartel single-handedly controlled the Tijuana *plaza* between the years of 1986 and 2002. The home of the cartel is Tijuana, a strategically located Mexican city comparable in size to Juarez. The territory is known to be a lucrative drug trafficking route going up to the United States, and this positioned the Tijuana cartel to become one of the most powerful Mexican cartels to be ever formed in Mexico.

Experts note that the Tijuana cartel's roots trace all the way back to the Mexican state of Sinaloa, where its founding members worked very closely with the legendary drug capo, Miguel Angel Felix Gallardo ("El Padrino")—one of the founders of the legendary Guadalajara cartel. The recognition of the Guadalajara cartel is paramount in this context as that it was the Mexican cartel that eventually gave birth to many of the underground organizations seen in Mexico today. Drug trafficking organizations such as the Sinaloa, Juarez, and the Tijuana were all splintered from the Guadalajara cartel.

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<sup>154</sup> Tim Steller, "Mexican Drug Runners May Have Used C-130," *The Arizona Daily Star*, April 15, 1998, <https://web.archive.org/web/20080103194935/www.csun.edu/CommunicationStudies/ben/news/cia/980415.steller.html>.

More importantly, however, the rise and the initial success of the Tijuana cartel was the efforts of brothers, “Benjamin, Ramon, Francisco Rafael, Francisco Javier, [and] Eduardo,”<sup>155</sup> otherwise known as the Arellano Felix brothers.

After the Tijuana cartel splintered from the Guadalajara cartel, the Arellano Felix brothers established themselves as the sole guardians of the Tijuana territory. Furthermore, the brothers quickly recognized they were ruling one of the most lucrative plazas leading into the United States, and so they initiated the collection of the piso from other organizations operating in their territory.<sup>156</sup> In addition, they looked to expand into the surrounding border cities as a form of diversification. While the organization has had its share of ups and downs through the years leading up to 2002, mostly battling the Sinaloa cartel led by El Chapo Guzman, the rapid growth started to crumble quickly, and the Tijuana cartel found itself on the verge of extinction.

In 2002, the Tijuana cartel made an effort to kill off the Sinaloa’s leaders and failed miserably, and this led to the downturn of the organization. Rather than successfully eliminating El Mayo of the Sinaloa cartel as planned, El Mayo’s hitmen were instead able to kill Benjamin Ramon. The death of Benjamin consequently left a vacuum in Tijuana DTO’s leadership hierarchy. Such vacuum eventually triggered more deaths and arrests for the Tijuana cartel leaders by both enemy DTOs and the state. As “DEA, FBI, and U.S. Attorney’s Office as well as many other federal, state, and local agencies joined forces to completely dismantle the leadership of the AFO,”<sup>157</sup> the combination of attacks on different fronts hampered the growth of the organization and its survival.

The continued lack of functional leadership coupled with a lack of notable organization growth in due course led to internal disputes and in turn caused a shift in

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<sup>155</sup> “Tijuana Cartel Profile,” InSight Crime, April 17, 2016, <http://www.insightcrime.org/mexico-organized-crime-news/tijuana-cartel-profile>.

<sup>156</sup> James Bargent, “Tijuana Cartel Leader Arrest Could Mean End of Drug Empire,” InSight Crime, June 24, 2014, <http://www.insightcrime.org/news-briefs/tijuana-cartel-leader-arrest-could-spell-end-of-arellano-felix-drug-empire>.

<sup>157</sup> “DEA/FBI Set up New Tip Lines,” U.S. Drug Enforcement Administration, May 3, 2013, <http://www.dea.gov/divisions/sd/2013/sd050313.shtml>.

balance of power among the clandestine DTOs.<sup>158</sup> The change in power paradigm through cartel fragmentation inevitably prevented the Tijuana cartel's successful power projection outside of the Baja peninsula through conglomerate power, reduced it to a small toll-collecting organization that it is today.

With the male leaders of the Tijuana cartel either in jail or killed, many speculate that Enedina Arellano Felix is now at the helm of the Tijuana cartel. As one of the sisters of the Arellano Felix' family, she is known to be educated in corporate business, not drug trafficking. However, even with a new face to the organizational leadership, without much successful business diversification, experts believe that today's Tijuana cartel is mere a puppet for other rival DTOs, such as the Sinaloa, that are the real controllers of the Tijuana territory.

### **C. INTERNAL STRUCTURE**

The intriguing landscape of the Mexican cartel is something that scholars study continuously, as that clandestine landscape today can change in a blink of an eye. For the once powerful Tijuana cartel, seen as a centralized organization, ruled the lucrative Tijuana plaza for a time. It was once able to stash away millions of dollars and pay in the neighborhood of \$75 million in bribes to state officials to impede investigations.<sup>159</sup> Unlike many of other prominent DTOs in Mexico, such as the decentralized Zetas, the Tijuana cartel has mostly had a hierarchy of centralized command and control.<sup>160</sup> This structure is not a favored one of today's corporate business or even cartels as it lacks fail safe measures, such as flexibility and resiliency, built into its internal structure.

The Tijuana cartel is built with the Arellano Felix family as the sole leaders of the organization, and it is the family members who make key decisions and judgments with no external influences. As undisputed leaders of the organization, the Arellano Felix family members decide and disseminate orders to a "council of advisors," who then

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<sup>158</sup> Fred Burton, "Mexico: The Price of Peace in the Cartel Wars," Stratfor, May 2, 2007, [https://www.stratfor.com/mexico\\_price\\_peace\\_cartel\\_wars](https://www.stratfor.com/mexico_price_peace_cartel_wars).

<sup>159</sup> Tim Padgett and Shannon Elaine, "The Border Monsters," *Time* 157, no. 23 (2001): 69.

<sup>160</sup> Oscar Becerra, "Tijuana Cartel Fights for Its Future," *Jane's Intelligence Review* 14, no. 12 (2012): 24-27.

control his or her own respective divisions below and carry out the individual orders.<sup>161</sup> Although it is relatively difficult to retrieve the most up-to-date information on the Tijuana cartel's internal structure and knowing that the organization is not what it used to be, the historical studies show that each of the division of the organization is responsible for a specific task.

In its heyday from the 1980s–2000, there were five main divisions of command in the Tijuana DTO that carried out the bulk of the organization's tasks. The first division was responsible for intelligence and the infiltration of the governmental institutions and law agencies to gather secret intelligence—mostly through the means of bribery.<sup>162</sup> The second division includes the sicarios (the assassins), who with orders from the top, use brutality and violence to remove obstacles and eliminate threats for rest of the cartel.<sup>163</sup> The money laundry falls under the third division, and the fourth division's duties are logistics of drugs. Finally, the fifth division consisted of moles, who would gather intelligence from rival cartels for future planning purposes.<sup>164</sup> Figure 5 depicts the Tijuana cartel's centralized hierarchy from the 1980s to 2000s.

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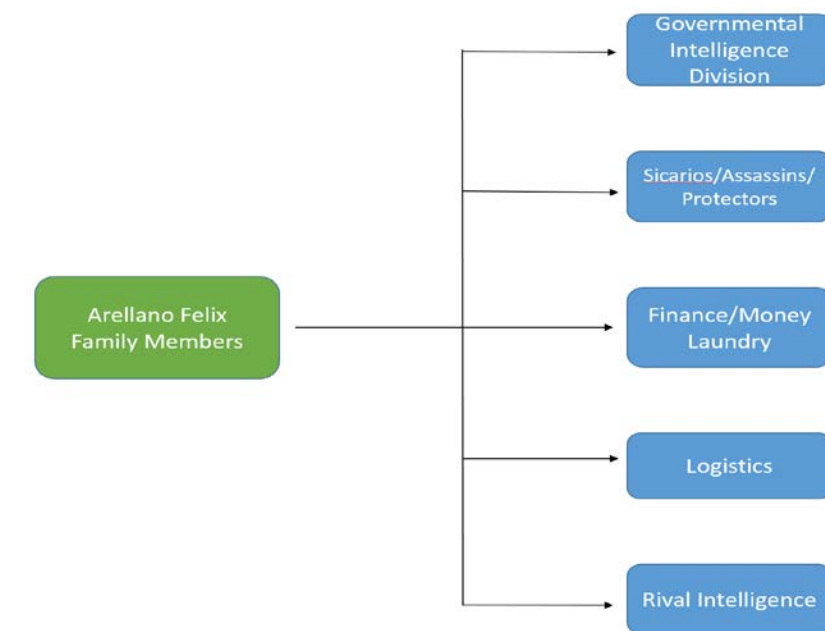
<sup>161</sup> Ibid.

<sup>162</sup> Paul R. Chabot, "An Historical Case Study of Organizational Resiliency within the Arellano-Felix Drug Trafficking Organization" (PhD diss., George Washington University, 2008).

<sup>163</sup> Ibid.

<sup>164</sup> Ibid.

Figure 5. Tijuana DTO Internal Structure<sup>165</sup>



An interesting fact regarding the Tijuana cartel structure is that at the height of domination throughout the 1980s and early 2000s, many experts believed that with the centralized hierarchy, the organization was in for the long run. Essentially, business was good due to the control and the family had the ability to make quick decisions. According to *Jane's Intelligence Review*, "Despite the hierarchical structure of the cartel, and its strong centralized decision-making, the existence of a family . . . Means that the loss of one or two leaders can be sustained without affecting the cartel's ability to control its operations and maintain revenues."<sup>166</sup>

Likewise, at the time of the cartel's success, Arellano Felix family were initially able to defend off rival organizations because they had numerous family members who expertly knew their region and business. What differentiates the Tijuana DTO's structure from a decentralized organization is that orders are given by a family member to each of the council of advisors to carry out. This is unlike a decentralized structure in which each

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<sup>165</sup> Adapted from Paul R. Chabot, "An Historical Case Study of Organizational Resiliency within the Arellano-Felix Drug Trafficking Organization" (PhD diss., George Washington University, 2008).

<sup>166</sup> Becerra, "Tijuana Cartel Fights."

cell specializes in certain aspects of the business empire and makes decisions as it sees fit. In theory, a centralized command and control structure could be advantageous since the leaders would know everything that is happening within the organization and make the necessary changes to further their business growth. At the end of the day, growth typically dictates the organizations' sustained success.<sup>167</sup> However, on the other hand, limiting the vast, overall knowledge only to the leaders, the Arellano Felix family may have significantly restricted their potential growth, unlike in the case of the Sinaloa and the Zetas. Organizations such as the Sinaloa, were geared toward a more centralized hierarchy when they first formed have since adapted to the environmental changes into a decentralized organization. However, for the Tijuana cartel, the family members continue with a rigid structure and without much room for adaptability.

#### **D. TESTING OF THE HYPOTHESIS**

Unlike the larger, decentralized Sinaloa and the Zetas in Chapters II and III, the Tijuana cartel is a small, centralized, drug trafficking organization, which makes it difficult to apply the hypotheses to it for testing. However, with the information that I was able to gather, my aim is to note some of the factors that limited the cartel's motivation and ability for business diversification and find out why some of my hypotheses are not possible to be tested.

##### **1. The Competition**

The competition model speculates that the Tijuana cartel has already secured its place in a specific market and that the cartel tries forcefully to diversify into a new market to either to create an alliance or to drive-off another cartel to gain conglomerate power. However, since we already acknowledge that the Tijuana cartel has lost its place in the Mexican clandestine market, we can only observe the historical factors that potentially motivated them to diversify or prevented it from diversifying before its fall.

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<sup>167</sup> Eric Kutcher, Olivia Nottebohm, and Kara Sprague, "Grow Fast or Die Slow," McKinsey & Company, April 14, 2014, <http://www.mckinsey.com/industries/high-tech/our-insights/grow-fast-or-die-slow>.



At the height of its success, the Tijuana cartel – was “considered one of the most powerful and violent drug trafficking organization in Mexico.”<sup>168</sup> *Time Magazine* speculated that at the height of the organization’s success, the brothers of the Arellano Felix family sat on top of a \$30-billion drug trafficking industry; this is different from newer drug agencies, which have interests in diversifying.<sup>169</sup> Many experts also recognized the Tijuana DTO, at its peak, as being the best at the drug trafficking game.

Distinguishing itself as the most ruthless and violent criminal organization in Mexico—and who to their advantage also owned the lucrative Tijuana plaza—it would be safe to state that the Tijuana cartel lacked the motivation to diversify into other types of business. Of course, just like any other criminal organizations, the Tijuana cartel had “diversified” into other means to launder money, but its diversification seems very minimal. Noting only minimal records of Tijuana DTO’s diversification, it leads me to believe that the brothers did not have any real interest in diversifying outside of the family drug business.

Furthermore, examining the period of the Tijuana cartel’s success sheds light on the cartel’s lack of diversification. The records show that at the peak of Tijuana cartel’s success in the drug smuggling business mostly falls before the year 2001. For anyone studying U.S. and Mexico border security issues, the year 2001 is important to note, as how the United States views the border security changed after the Al Qaeda’s terrorist attacks on September 11, 2001.

The tightened border security after the terrorist attacks also made drug running for Mexican DTOs significantly more challenging. Compared to the security scrutiny today, before 2001 it was relatively easy for drug organizations to smuggle narcotics across the border. Granted, though both the U.S. and Mexico governments acknowledged that there were drug trafficking problems at the borders, nothing major was implemented to stop the clandestine criminal activities. In an interview conducted by *Frontline* with a drug

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168 “Beginning of the End for Arellano-Felix Trafficking Organization (2000–2002),” U.S. Drug Enforcement Administration, accessed May 2, 2016, <http://www.dea.gov/pubs/pressrel/pr070903a.html>.

169 Padgett and Elaine, “The Border Monster.”

smuggler, when asked if it was easier to smuggle drugs across the border before 9/11, the smuggler said:

From smuggling people, to smuggling drugs, to smuggling emeralds and diamonds. It was easier . . . After 9/11, everything was tight security. Nobody could work, at least for a couple of months. Nobody tried [to cross the border] because the people who tried failed.<sup>170</sup>

All the bribing by the Tijuana DTO before 9/11 paid off. With special connections all throughout Tijuana and the bordering cities, for the Arellano Felix family, the drug smuggling business was easy money. They did not have any pressing reason to expand as long as they were at the top of the game. Before 9/11, for the Tijuana cartel, it was easier to continue trafficking drugs rather than to diversify its business growth through violent competition.

Due to its failure to understand the concept of the conglomerate power, the Tijuana cartel also failed diversity its business as national level cartels do today. Because it thought it had a bright future in a very lucrative drug business and no one would dare challenge it, the Tijuana cartel made no investments as a backup for the drug business. However, as we will see later on, it was only matter of time before the organization was brought down by its stronger foes, who were preparing to attack at a moment's notice.

## **2. The Weak State**

The weak state hypothesis assumes that the capacity of the state to successfully combat or defend the illicit acts of the Tijuana DTO is insufficient. Thus, we witness an opportunity of business diversification within the organization. Knowing the current trend of the Tijuana cartel's declining status, I examine the state's capacity to bring down the once powerful drug trafficking organization.

Formally known as the bribe king of Mexico, the Tijuana cartel sought out and took advantage of the weak state throughout the heyday of organization. When it was expanding, the cartel bribed its way to success in many cases, seeking every opportunity

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<sup>170</sup> "Extended Interview: A Human Smuggler," Public Broadcasting Service, April 3, 2008, <http://www.pbs.org/frontlineworld/stories/mexico704/interview/smuggler.html>.

within the weak governmental system. If the bribing did not work, the Arellano Felix family used the sicarios and fear tactics to get what they wanted.

The start of the degradation of the organization began with the accidental murder of the Mexican cardinal Juan Jesus Posadas Ocampo by a couple of cartel members in a shootout at the Guadalajara airport in 1993. Benjamin Arellano Felix had ordered his sicarios to kill El Chapo Guzman to prevent his attempt to overtake the Tijuana drug corridor; however, Benjamin had bad intelligence, and the cardinal's death was an unfortunate result at their attempt in killing El Chapo. In a country where 84 percent of its population is Catholic, the reckless killing of one of the church's top authorities skyrocketed the Tijuana cartel to Mexico's public enemy number one overnight.<sup>171</sup> This action ended up nearly destroying the organization.

The downfall of the cartel continued with the arrest of Javier Arellano Felix, who was the last brother apprehended in 2006 while he was fishing off the Mexican Baja California.<sup>172</sup> Javier's capture by the authorities put a stop to the organization's chance of resilience because as a major player, his arrest led to widespread internal disputes—a sign of cartel's weakness within the clandestine industry.<sup>173</sup> His arrest also revealed the level of widespread bribery in which the cartel had been engaged.

As a plea bargain deal with the authorities, Javier admitted that the family “repeatedly and willfully obstructed and impeded the investigation and prosecution of AFO activities”<sup>174</sup> by paying people off. And in some instances, if the bribes did not work, the family would simply commit murder to advance its business. Moreover, Javier admitted many other secrets to the authorities as part of the plea deal. He thoroughly explained the internal structures of his organization and other DTOs and how exactly the

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171 Ken Ellingwood, “2 Men Admit Roles in 1993 Slaying of Mexican Cardinal,” Los Angeles Times, October 16, 1998, <http://articles.latimes.com/1998/oct/16/news/mn-33146>.

172 Longmire, Cartel, 144.

173 United Nations Office on Drugs and Crime, *Transnational Organized Crime in Central America and the Caribbean* (Vienna: United Nations Office on Drugs and Crime, 2012), [https://www.unodc.org/documents/data-and-analysis/Studies/TOC\\_Central\\_America\\_and\\_the\\_Caribbean\\_english.pdf](https://www.unodc.org/documents/data-and-analysis/Studies/TOC_Central_America_and_the_Caribbean_english.pdf).

174 Longmire, Cartel, 144.

organizations ran the drug business. In addition, he admitted that the organization would wiretap “rival drug traffickers and Mexican law enforcement officials in a similar fashion to legal authorities,”<sup>175</sup> to obtain a constant flow of intelligence. The Achilles heel of the Tijuana DTO was the knowledge of each brother had of the Arellano Felix family. Their vast understanding regarding the drug operation contrasted with the lack of operational knowledge of the organization’s members who were outside of the family. This considerably hindered the daily operations of the organization once the brothers were taken out of the picture.

Mexico, with the help from the United States finally found the center of gravity (i.e., the weakness) of the cartel. Note, I am not stating that Mexico is now a strong state; I am just indicating that it was able to find the weak point of the Tijuana cartel and to prevent it from further taking advantage of the weak state system. Although the method of killing organizational leaders normally does not destroy decentralized DTOs, the leadership vacuum created by apprehending Arellano Felix brothers, who held all the key organizational knowledge, devastated the organization’s adaptability.

The cartel’s inability to continue to take advantage of the weak state came when it lost the ability to be self-reliant; this was compounded by its lack of awareness of its own weakness. Situational awareness is essential in the Mexican clandestine business. The capability to infiltrate an enemy organization and law enforcement is the key success to keeping a clandestine, illicit business alive. An organization’s full awareness of the internal weakness structure within the organization is crucial, particularly for a centralized organization. The organization lost its sense of situational awareness regarding its essential need for competent leadership. As Bunck and Fowler explain:

Twenty-first-century U.S. and Mexican law-enforcement efforts have diminished Tijuana; one brother (Francisco Rafael) was arrested in 1993, another (Ramon) was killed in 2002, a third (Javier) was arrested in 2006, and a fourth (Eduardo) was apprehended in 2008.<sup>176</sup>

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<sup>175</sup> Ibid.

<sup>176</sup> Julie Marie Bunck and Michael Ross Fowler, *Bribes, Bullets, and Intimidation Drug Trafficking and the Law in Central America* (University Park, PA: Pennsylvania State University Press, 2012), 51.

One by one, the Tijuana DTO leaders were either killed or apprehended by the state. By losing its internal situational awareness, the organization lost the majority of its knowledgeable leaders and also its ability to be self-reliant. The organization lost its sense of direction. Essentially, the lack of diversified business structure was slowly killing off its legitimacy within the clandestine landscape.

### **3. Resource Exploitation and Push and Pull**

The lack of concrete evidence of the organization's current, the most up-to-date information on its diversified business endeavors leads me to believe that either the interest of the Tijuana DTO among researchers is lacking or the cartel's current goal is for survival, rather than trying to diversify for additional profits. Unlike the successful Sinaloa and Los Zetas DTOs, organizations that are still active through diversified activities, Tijuana DTO's combination of variables—such as centralized internal structure and decimation of leadership—limited its operation mostly to drugs, especially cocaine, throughout its existence. This significantly limited any important researchable diversification. This narrow business mindset of the Tijuana leadership leads me to assume that the organization was, in fact, more concentrated in drug trafficking than exploring other diversified opportunities for further growth.

With the understanding of past cases, such as Sinaloa's diversification into methamphetamines, I can only assume that Arellano Felix brothers were not motivated to utilize their leftover resources from the cartel's cocaine trafficking business to diversify. Likewise, as the Tijuana cartel was mostly a cocaine specialist, limited to their Tijuana area of responsibility, it is difficult to conclude whether it was truly motivated by the push or pull effect of the economic globalization. Compared to today's diversified cartels, the leadership of the organization was very narrow-minded. It is possible that the Tijuana cartel was in fact influenced to diversify into other business by either resource exploitation or the push and pull model, but there is little evidence of it. Through my research, there was a consistent lack of evidence, leading me to believe that Tijuana DTO has not been motivated to diversify outside of its drug trafficking business to gain conglomerate power.

## E. CHAPTER CONCLUSION

Experts proclaim that the current relative quietness of Tijuana plaza hints to the status of the Tijuana cartel. After the loss of many of its top leaders, it was not long before El Chapo and the Sinaloa DTO stepped in to overtake the lucrative corridor. After all, the base operation of drug trafficking and the ambition of the Tijuana cartel significantly “overlapped with those of the Sinaloa cartel, with which it has feuded.”<sup>177</sup> InsightCrime also confirms that the activities within the city also points to the dominance of the Sinaloa DTO.<sup>178</sup> Furthermore, many agree that Tijuana cartel has made a truce with the Sinaloa to survive. In addition, many analysts conclude that Tijuana is a puppet for the Sinaloa and that only 15 percent of Tijuana territory is now run by what is left of the cartel.<sup>179</sup> As seen in Figure 6, the insignificant size of the Tijuana cartel is evidenced when news agencies, such as the Agence France-Presse (AFP), now simply ignores the Tijuana DTO even in visualizations of the Mexican clandestine landscape.

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<sup>177</sup> Ibid., 51.

<sup>178</sup> Steve Dudley, “Who Controls Tijuana?” Insight Crime, May 3, 2011, <http://www.insightcrime.org/investigations/who-controls-tijuana>.

<sup>179</sup> Ibid.

Figure 6. Landscape of the Mexican Drug Cartels in 2014<sup>180</sup>



In some ways, the process of the Tijuana cartel explains that combination of events can cause a domino effect causing an organisation to fall. The once successful drug cartel lacked the capacity to adapt its internal organization to meet the everchanging Mexican clandestine landscape. Both the Tijuana and the Sinaloa DTOs initially started out as a splinter from the Guadalajara DTO as centralized organizations. While the Sinaloa DTO was adapting its command and control structure to meet the changing environment, the more decentralized organization, the Arellano Felix brothers—due to their overwhelming success of their cocaine business—were blinded in their sense of situational awareness to a point where resilience was nearly impossible.

The Tijuana DTOs practice of fixating to one particular product (cocaine trafficking) ultimately led to the absence of successful product diversification. So, in the case of the Tijuana cartel, as it was mostly a drug trafficking organization, both the resource and the push and pull hypothesis is hard to test as there is a lack of detailed evidence of its diversification motives. For the competition and the weak state hypothesis, the failed attempts at the organization's internal adaptability and to diversify,

<sup>180</sup> Source: “AFP News Agency on Twitter: “Map of Mexico Showing Zones Controlled by Major Drug Cartels #infographic [Http://t.co/SgW44cbLwD](http://t.co/SgW44cbLwD)” *Twitter*, February 25, 2014, <https://twitter.com/afp/status/438275150367051776>.

I conclude that nothing motivated the organization to diversify to further its profits. Due to the significant decline in the presence of the Tijuana cartel, the act of business diversification in their context is now not applicable. The organization's current priority, is to make strides towards resilience to prevent its destruction rather than trying to diversify.



## V. CONCLUSION

### A. INTRODUCTION

In January 2016, Mexican authorities, with the help from the United States, recaptured Joaquin “El Chapo” Guzman of the Sinaloa DTO for the third time. For Mexicans, the day was significant as President Enrique Peña Nieto cheerfully announced to the public, “Mission Accomplished,”<sup>181</sup> noting that institutions once again had done its job placing a lead, criminal figure behind bars. By the same token, with continued incarceration of El Chapo, people expected a decline of Sinaloa DTO projected power throughout Mexico. However, unlike the public’s prediction, the cartel’s strong presence continued. This leaves us with a question of how the DTOs are continuously projecting power despite the absence of leadership and continued suppression from the state.

My intention in this thesis has been to show that DTOs’ continued operation without their leadership is the result of organizational business diversification. The thesis identifies that DTOs’ motivation to diversify lies within the combination of their power to control the weak state, their will to capitalize on economic globalization, and desire to maximize their efficiency in using organization resources to attain much profit as possible. Moreover, the study has also confirmed that for a successful business diversification, a decentralized organization structure is indeed critical as confirmed by the resilient Los Zetas and the Sinaloans through their continued progression while their respectable leaders were either killed or incarcerated.

The thesis emphasizes the importance of understanding corporate diversification to develop a framework for understanding the continued operation of the DTOs. Although a clear consensus is still lacking, in a simple form, a business diversification refers to a firm’s entry into a new market, through either an acquisition or an internal strategy, to equalize the strengths and weaknesses of its current operation for additional profit. Likewise, to offset the overall source of revenue, corporations occasionally are

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<sup>181</sup> Greg Botelho and Michael Martinez, “‘Mission Accomplished’: Mexican President says ‘El Chapo’ Caught,” CNN, January 8, 2016, <http://www.cnn.com/2016/01/08/americas/el-chapo-captured-mexico/>.

motivated to venture into unrelated investments to obtain higher profit margins than they could otherwise achieve.<sup>182</sup>

The three different DTOs examined in this thesis reveals various aspects of organizational operations within the Mexican clandestine landscape. Ultimately, the DTOs want to profit continuously from illicit transactions for growth. Both Sinaloa and Los Zetas DTOs, the two national level organizations, display an effective strategy to obtain growth through business diversification. By constantly altering their business operation to meet the changing licit and illicit business landscape, the Sinaloa and Los Zetas can directly discover new opportunities for growth. For an example, if there are possibilities for growth in the natural resource industry, thanks to industrialization in foreign countries, as DTOs, they are ready to make the necessary changes to diversify their business models to take on new challenges.

On the other hand, the Tijuana DTO displays something entirely different from the two diversified DTOs do. From the beginning, the family-oriented organization specialized in the drug trafficking business in a specific region—Tijuana, Mexico. Unlike the more decentralized Sinaloa DTO, which was formed from the same fragmentation from the Guadalajara cartel, the Tijuana DTO never made an effort to transition its internal structure to prepare for business diversification. Moreover, due to the combination of the loss of opportunities concerning economic globalization and the lack of motivation to expand outside of the northwestern region of Mexico, the Tijuana DTO never seized the opportunities to diversify to distribute its revenue sources.

## **B. COMPARING STRATEGIES AND DIFFERENT RESULTS**

The war on drugs directed by the Mexican officials is geared towards the destruction of the DTOs, and so far it has not been very effective. Over the years, starting with President Miguel Madrid in the 1980s, the subsequent president's efforts to use hard power to quench the DTO efforts has to an extent been ignored by the DTOs (although the effort put forth by Calderon was most significant).<sup>183</sup> Strategies, such as the “Safe

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<sup>182</sup> St. John and Harrison, “Manufacturing-based Relatedness.”

<sup>183</sup> Shannon O’Neil, “The Real War in Mexico,” *Foreign Affairs* 88, no. 4 (2009): 63–77.

Mexico Plan”<sup>184</sup> unveiled by president Vicente Fox, to destroy the DTOs using hard power has not been as effective in stopping DTO continued profitability as the state originally intended. Through the research conducted for this thesis, the ongoing efforts of the Mexican government to contain the DTOs are very similar all across the board. However, my testing of the hypotheses explains that through rapid diversification, both the Sinaloa and Los Zetas DTOs have been able to profit continuously even while being suppressed by state authorities. On the other hand, the lack of definitive diversification of the Tijuana DTO greatly hindered its ability to project power and resulted in it being overtaken by the stronger, more diversified DTOs.

Analyzing the historical events through the lens of three different DTOs: the Sinaloa, Los Zetas, and finally the Tijuana, I was able to test my hypotheses (competition, resource exploitation, weak state, and the push versus pull) to see if the DTOs are in fact more motivated to diversify if certain elements were present. Table 1 compiles the findings of my research of the motivating factors influencing the DTOs to diversify.

Table 1. Motivating Factors of Diversification

	Resource Exploitation H <sub>1</sub>	Push Verses Pull H <sub>2</sub>	Weak State AH <sub>1</sub>	Competition AH <sub>2</sub>	Diversified?
Sinaloa DTO	Yes	Yes	Yes	No	Yes
Los Zetas DTO	Yes	Yes	Yes	Yes	Yes
Tijuana DTO (AFO)	No	No	Yes	No	No

As seen in Table 1, the two decentralized DTOs, the Sinaloa and Los Zetas overall have been deeply influenced to diversify. Due to their strong understandings of the resource exploitation (H<sub>1</sub>) and push versus pull (H<sub>2</sub>) opportunities, both the Sinaloa and the Zetas strategized to take advantage of the possibilities of different diversifications

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<sup>184</sup> George W. Grayson, Mexico: Narco-Violence and a Failed State? (New Brunswick, NJ: Transaction Publishers, 2010), 119.

within their available means. We witness the DTOs success in diversification by their continuous ability to profit from their business even during heavy suppression by the state to shut them down.

Overall, the basis of DTO diversification lies within the weak state of Mexico. As seen on Table 1, all three DTOs took advantage of the weak state (AH<sub>1</sub>). Due to this fact, I consider the weak state hypothesis as a background condition for any illicit diversification. However, I consider the weak state hypothesis as an alternative hypothesis knowing that the weak state element alone cannot be the sole explanation of DTO diversification as seen by non-diversified Tijuana DTO. The two primary hypothesis that requires attention in understanding what motivates the DTOs to diversify is the resource exploitation and the push versus pull. The two diversified DTOs, the Sinaloa, and Los Zetas, both effectively positioned themselves to make the resource exploitation and push versus pull as motivating factors for their need to diversify. Like so, because they effectively utilized the two factors as a motivating factors for diversification, their overall ability to leverage their revenues through diversification consistently brought in profits, even during heavy state suppression.

On the contrary, the once-powerful Tijuana DTO never realized that its centralized family structure blinded its ability to quickly identify the given opportunities to diversify—unlike its decentralized competitors. Despite the Tijuana DTO's initial success of using the weak state to its advantage during its initial growth, it made a critical mistake that has caused the organization to fall behind its competitors; it failed to adapt its internal structure to the changing landscape of the clandestine industry, thus firmly establishing business diversification to gain conglomerate power.<sup>185</sup>

So far, the strategy of the Mexican government to limit the power projection of the DTOs has been to arrest members and to disrupt the drug market through what they called drug wars. As such, the Sinaloa and the Zetas DTO's successful diversification into other means of businesses has yielded power through the act of cross-subsidization,

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<sup>185</sup> Montgomery, "Corporate Diversification," 165.

counteracting the pressures posed by the government.<sup>186</sup> These two DTOs have been able to “use its profits from one market (sometimes known as ‘deep pockets’) to support predatory pricing activities in another.”<sup>187</sup> Furthermore, as decentralized organizations, the ease of expansion through the delegation of power by the means of cellular networks also supports the maximization of their overall profitability unlike a more centralized organization (e.g., the Tijuana cartel), which tends to crumble when its top leaders are misplaced.

The Tijuana DTO case is similar to that of a legal corporation that, mostly due to the market unpredictability, lacks a successfully diversified portfolio to create an effective cross-subsidization really hindered their overall success. In this age of globalization, this means that the organization’s chances of growth is minimal. This demonstrates that the process of business diversification is a critical aspect in DTO’s continued profitability. So far, the Mexican government’s strategy to combat the DTOs has not been discriminative toward any specific organization within the clandestine landscape. However, as seen in the cases of the three DTOs, despite the similar initial stages of growth, the organizations’ with the ability to diversify ultimately have had overall success in business profitability.

### **C. THE APPLICATIONS OF THE FINDINGS**

As expressed throughout the chapters, the diversification process, and more importantly, the motivators that have influenced the DTOs to diversify, matter significantly. More importantly, as noted through the research, the current weakness of the Mexican state offers a perfect breeding ground for the DTOs to diversify. Many researchers agree that the rise of DTOs in Mexico is a real problem and requires resolution. Before the economic globalization, the DTO concerns were more localized; however, with the invention of technology through globalization, the rapid development of the clandestine organizations are causing havoc in not just Mexico but in countries all

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186 Ibid.

187 Ibid.

around the world through the sale of illicit logistics—undermining the core economies of various countries.

The current Mexican strategy of using hard power to contain DTOs only seems to aggravate the organizations to retaliate with more force and to diversify. According to an article by O’Neil in *Foreign Affairs*, “incarcerating individuals only briefly disrupts criminal operations, since people are swiftly replaced.”<sup>188</sup> Knowing how modern DTOs employ rapid business diversification to adapt, the only way to successfully disrupt their means of projecting power is to hit them where it really hurts—their profits. Legalization of marijuana in the United States is a good starting point for bankrupting the DTOs. However, as witnessed through the Sinaloa’s case, the DTOs are quick to diversify to equalize their profits. Scholars estimate that on average, the diversified Mexican DTOs generate some healthy \$15 billion to \$25 billion,<sup>189</sup> annually—mostly through the sales of illegal products to the United States. With the ability to generate hefty profits annually, it is no shock that diversified DTOs are getting stronger year after year. As in the legitimate landscape, within the clandestine landscape, money is power. Thus, to contain DTOs’ future power projections, a primary goal of government entities need to be prediction of future opportunities for DTO diversification. This is an area that requires further and continuous study.

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188 O’Neil, “The Real War in Mexico.”

189 Ibid.

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