

Free trade, drugs and violence

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The North American Free Trade Agreement (NAFTA, 1994) relaxed trade restrictions between the United States, Canada and Mexico. But the agreement also brought about an unintended consequence – a surge in drug-related violence in Mexico.

In 1994, NAFTA reduced or eliminated tariffs on imports and exports between the US, Canada and Mexico, creating a massive free-trade zone. The deal was economically beneficial for Mexico in many ways. The looser terms of trade led to a doubling of exports to the US as a percentage of GDP (Gross Domestic Product).

But the free trade agreement also opened up new opportunities for the illegal cocaine trade. From the mid-1980s Mexican drug-trafficking organisations had offered services to cartels in Colombia to transport cocaine overland and across the US border. NAFTA increased the profits of these organisations by making trafficking routes much less risky.

Between 1993 and 1996 the number of cargo trucks crossing the Mexican US border increased by 1.6 million, while the US border control inspection rate fell. In other words, the risk of being caught trafficking cocaine plummeted, turning the Mexican border into a prime gateway to the US for drug traffickers. We believe that the profits from smuggling a kilogram of cocaine into the US increased by as much as 75%.

This increased profits in the Mexican drug-trafficking sector and, by consequence, the value of controlling it. Enticed to capitalise on this newly lucrative opportunity, Mexican traffickers, backed by Colombian drug lords, raced to take control of the most valuable drug trafficking routes.

The effect changed the geography of violence in Mexico. We compare the changes in drug-related homicides after NAFTA's introduction across municipalities with and without drug-trafficking routes.

We predict potential trafficking routes by estimating optimal routes between points of entry into the US and known areas of drug production and drug trafficking in Mexico before NAFTA. Using municipal-level panel data, we then measure changes in male homicides between the age

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of 15 and 39 in regions along these routes.

We find that Mexican regions on drug trafficking routes saw a disproportionate rise in violence after the introduction of NAFTA. The proportion of homicides per 100,000 residents rose by 27% along these routes.

The results also show a positive association between the length of routes within a municipality and drug-related homicides, suggesting that violence was concentrated in municipalities with longer segments of trafficking routes.

Our analysis finds that changes emerge only after 1994, whereas trends in drug-related homicides did not differ across municipalities with and without drug-trafficking routes before NAFTA was introduced.

We are also able to show that the introduction of NAFTA is not associated with any changes in homicides of demographics not typically involved in the trafficking business, such as females and older people. Other causes of death, such as suicides and traffic fatalities are also unaffected.

We can also rule out that these changes in drug-related violence were driven by other detrimental effects of the free trade agreement. For example, regions that predominantly produced maize, which arguably suffered the most from import competition after NAFTA, did not experience a rise in drug-related homicides. The same is true for regions strongly affected by import competition in manufacturing. These checks confirm that the estimated increase in drug-

related homicides in municipalities with a predicted drug-trafficking route is triggered by NAFTA and is not confounded by the detrimental effects of import competition.

A decade after NAFTA, 90% of Colombian cocaine had been smuggled through the Southwest Mexican-US border. With massive wealth and power being accumulated by Mexican cartels and kingpins, like Sinaloa cartel leader Joaquín ‘El Chapo’ Guzmán, NAFTA's impact on violence and the global drug trade was indisputable.

The unintended negative consequences of NAFTA demonstrate the delicacy of designing trade policy. In 2020, NAFTA was scrapped by US congress and replaced with The United States-Mexico-Canada Agreement (USMCA) which places specific focus on upholding good anti-corruption laws and regulatory practices. ◀

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Figure 1: Predicted drug-trafficking routes

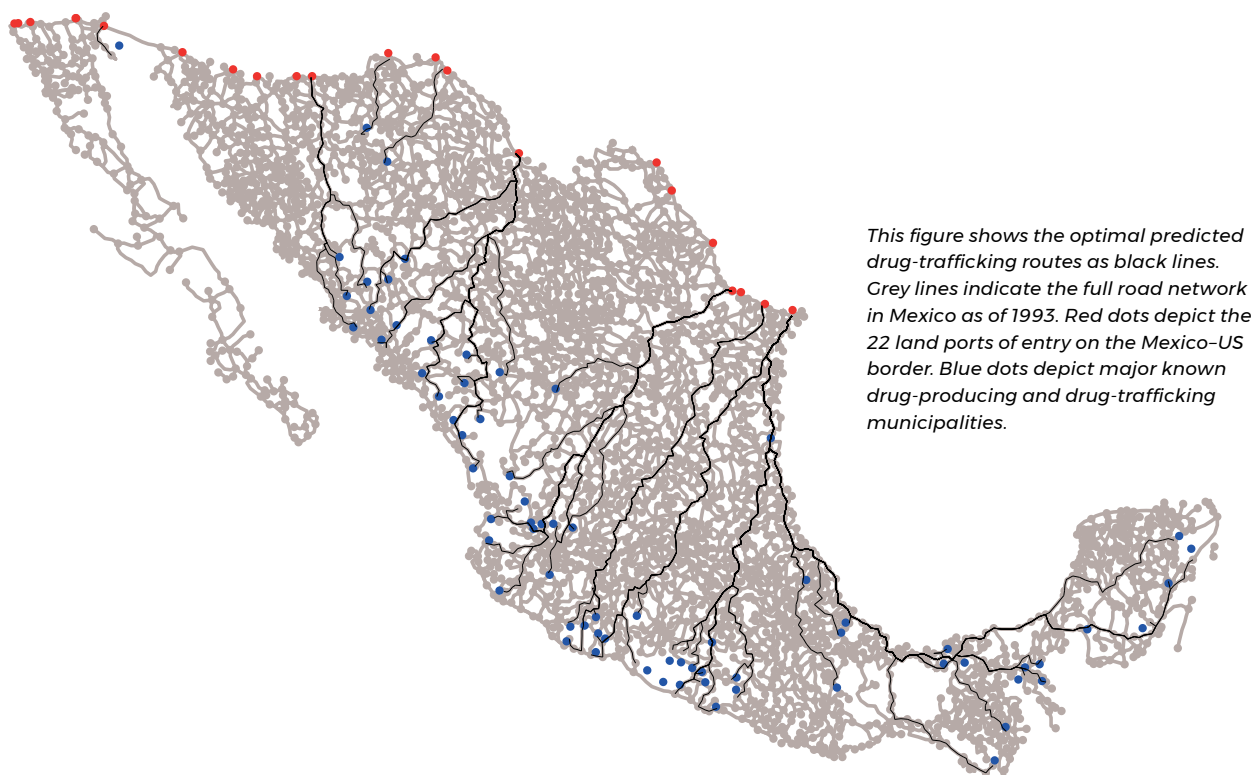


Figure 2: Predicted drug trafficking routes and changes in drug-related homicides

