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Sinaloa World: The Dark Mirror of the Global Drugs Trade

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"As a mirror image of a legal commodities business, the Sinaloa cartel brings to mind that old line about Ginger Rogers doing all the same moves as Fred Astaire, only backward and in heels. In its longevity, profitability and scope, it might be the most successful criminal enterprise in history."

— Patrick Radden Keefe[1]

Backward, and in Heels

One of Mexico's biggest brand names is a multi-billion dollar transnational enterprise with diverse product lines, a complex financial structure, robust consumer markets, scientific and technical savvy, and close ties to governments. In many ways, it could be a model for 21st century globalization. From its home base in Culiacan, in the Mexican state of Sinaloa, the business reaches out to its supply chain vendors, banking partners, production facilities, distribution networks, growing markets, and labor force in sixteen countries in the western hemisphere, and at least five in Asia and the trans-Pacific, including Hong Kong, China, Australia, Malaysia, and the Philippines.

As an engine of globalization, this organization maximizes productivity and efficiency by sourcing its supply chain vendors for quality, reliability, and price. It outsources production to labor markets that offer low wages, manageable government tariffs or controls, and proximity to markets. It offshores whole divisions of its business where it may enjoy greater competitive and regulatory advantage. It invests in human capital development through training and education of its workforce as needed. It creates wealth in the countries it trades with both by offering employment in sectors of the economy where employment is scarce, and by providing working capital for local entrepreneurs who invest their profits back in the local community.

At home in Mexico, the company is a major contributor to the police, local governments, and officials at the state and federal level, as well as giving directly to the disadvantaged by helping build schools and parks, making direct dispensations to the poor. At home, as well as in every country with whom they are a trading partner, they act as an effective spur to governments to increase their investment in security and defense, and to extend sovereignty to even the furthest flung, loosely-held corners of the country. The head of the enterprise is a rags-to-riches success story with a fleet of Lear jets and private hideaways, who enjoys the loyalty and respect of his managing directors and staff, and the admiration of a large part of the people of Mexico. He and his organization are the subject of countless songs, stories, books, and TV melodramas all celebrating or at least dramatizing his exploits; and he also just happened to earn a spot on the Forbes list of the world's richest people four years running from 2009 to 2012 (he was dropped in 2013 because his income, presumably stratospheric, could not be verified).

That this organization must achieve all this under conditions of the greatest secrecy and insecurity is doubly impressive. Imagine a resource conglomerate, say an oil company, that had to drill in secret, bribe officials from the lowest local cop to the highest levels of government, file false paperwork for hired transport vessels that had to find secret routes and could be impounded or sunk anytime. This company's leaders, if found, would be jailed anywhere in the world, if not shot first by police, military, rival oil companies, or not infrequently by their own workers. This resource conglomerate cannot advertise or look for customers, cannot openly bid for contracts or solicit vendors, cannot share information freely with anyone outside the organization, or behave in any way as a participant in a market economy. Only an organization that is strong, resilient, deft, creative, and highly adaptive to changing conditions could manage to thrive in this dark-mirror version of 21st century business globalization.

Either that, or they have to sell drugs. The Sinaloa Cartel does both.

Overview of the Global Drugs Trade

Approximately 246 million people, or five percent of the world population between the ages of 15 and 64 tried an illicit drug during 2013. One out of ten of these are characterized as problem drug users, which, if you put them all together, would equal the population of Malaysia. Almost half of problem users inject drugs (12.2 million) and of that group nearly two million live with HIV infection.[2] As of 2015 the global market for illegal drugs is estimated to be on the order of $300 billion US dollars a year. "If it were a country," writes *Economist* reporter Tom Wainwright, "it would rank among the world's forty largest economies."[3]

Of the classes of drugs produced and shipped around the world, Cannabis remains the most prevalent, with use increasing in North America, Europe, West and Central Africa, and Oceana. Cocaine use worldwide has fallen slightly, and cultivation has slowed in recent years. Cocaine use in the U.S. is down markedly since 2006, but, as if in compensation, use has increased rapidly in Europe, Australia, and especially, South America. Brazil is now one of the top markets for crack and coca paste. Methamphetamine and other synthetic stimulants, after a decade-long rise, have leveled off. Heroin, as well as synthetic opioids, are on the rise.[4]

The chief stock in trade of the international drug cartels – first in Colombia, then in Mexico – has been cocaine, estimated to be a $90 billion dollar a year commodity. But the cash crop, there to provide stability in times of market volatility, has always been marijuana. According to journalist Tom Wainwright's entertaining, sobering 2016 book, *Narconomics*:

"No one is quite sure why, but coke consumption in America fell by one-half in the years 2006-2010. The cannabis market looks healthier, with consumption going up by nearly one-third during the same period, but there are different threats to the cartels there, in the form of powerful new American competitors that are operating in the states that have legalized the marijuana business, and now threaten to take over the market."[5]

Focusing on one or two product lines in a volatile market is not sound business, and today's drug trafficking organizations (DTO's) are nothing if not sound business strategists. In much the same way Coca Cola researches and launches new product lines in an effort to find new products for their customers, and new customers for their products, the Mexican cartels have recently undertaken a program of diversification and expansion. The Sinaloa cartel (sometimes called the Sinaloa Federation) has been at the forefront of these strategies and has, through all means violent and nonviolent available to them, consolidated their position as the world's most powerful drug trafficker, according to the U.S. Treasury department.[6]

A Brief History of the Mexican Cartels

Mexican gangs first organized to smuggle people and contraband across the border into the U.S. in the 1920s and '30s. By the 1970s gangs in Tijuana and elsewhere organized to begin large-scale smuggling of Mexican marijuana across the border and into neighboring cities in California, Arizona, and Texas.[7] With the cocaine boom of the early 1980s the Columbian cocaine cartels, chiefly the Medellin cartel, had begun large-scale shipment of cocaine grown in Bolivia and Peru (later in Columbia), and processed in Colombia, into the U.S. via Caribbean smuggling routes into Florida.[8] The DEA South Florida Task Force formed in the mid-'80s made major inroads interdicting cocaine coming in to Florida. Pablo Escobar, head of the Medellin cartel, needed to find other routes, and he looked west, to Mexico. In the beginning, the deal he brokered with fledgling Mexican cartels was a simple producer-vendor relationship, with Medellin paying the Guadalajara cartel, and it's head, "El Padrino," $1,000 a kilo for routing drugs over the U.S. border, where the Colombians would resume control of delivery and distribution to cities across the country.

In 1989 El Padrino was captured by Mexican authorities, and the remaining members of the Guadalajara cartel assembled in Acapulco to determine which smuggling route each capo would inherit. Among them was the 5'6" son of a farmer from the tiny town of La Tuna, in the state of Sinaloa, named Joaquín Guzmán Loéra, nicknamed "El Chapo," or Shorty. "The meeting was ostensibly a gathering of friends. But the shards of El Padrino's organization would become the basis for the Tijuana, Juárez and Sinaloa cartels, and these onetime colleagues would soon become antagonists in a cycle of bloody turf wars that continues to this day."[9]

Carillo Fuentes became head of the Juarez cartel, with its home base in Ciudad Juarez snug up against the southern border of El Paso, Texas. Fuentes' great innovation was as an air traffic controller, managing as many as six flights a day of planes large and small from Colombia into Mexico, earning him the nickname "Lord of the Skies." The watershed innovation of the Mexican cartels, the event that provided the energy for their leap over the remnants of the Colombian traffickers, came in 1994, following the killing of Medellin cartel head Pablo Escobar and emergence of the Cali cartel. Juan Garcia-Abrego, the head of Mexico's Gulf cartel, forged a new deal with the weaker Cali leadership: Instead of being paid in cash to transship Colombian cocaine, they would take half the coke from Cali shipments, and develop distribution networks of their own. This became the standard practice for all the cartels, and gave the Mexicans an immense share of power. They quickly set up distribution networks in LA, Houston, Dallas, NYC, and Chicago, but let the Colombians keep Miami for the time being.[10]

By 1997 Carillo Fuentes and the Juarez cartel were the undisputed kings of Mexican cocaine traffic. They were netting $200 million a week in sales – four times the income of all other cartels combined. Fuentes was making plans to cut the Colombians out of the trade entirely, and to diversify into money laundering and the newly burgeoning market for crystal meth. In his efforts to stay out of the grasp of Mexican authorities and Cali and other cartel hitmen, Fuentes twice had plastic surgery to alter his appearance. In what appears in hindsight an excess of caution, he opted for a third procedure, and died on the operating table. In a bit of catastrophic timing, following Fuentes' death the Mexican authorities swooped in and arrested 93 members of the Juarez cartel. In the power vacuum that ensued Garcia-Abrego and the Gulf cartel stepped into the breech, aided by their security force, Los Zetas, former members of the *Grupos Aeromoviles de Fuerzas Especiales* (GAFE), an elite special forces unit that deserted from the Mexican military between 1996 and 2000.[11] The dominance of the Gulf cartel would be short lived, however, owing to two factors: the betrayal and desertion of Los Zetas, who formed their own vicious gang in 2009, and the coming prominence of Sinaloa.

The Transnational Criminal Organization as Agent of Globalization

Why *"Cartel?"* The Oxford English Dictionary defines a cartel as "An association of manufacturers or suppliers with the purpose of maintaining prices at a high level and restricting competition." This assumes that competing organizations collude, or at least agree, to control supply and thereby establish market price of a good. For an example, see OPEC. That is not how the drug cartels behave. Rather, the interest of each individual drug cartel is to maximize product flow regardless of any other cartel's, and often in competition or outright warfare with them. The UN, World Bank, and other bodies prefer the term "Drug Trafficking Organization" (DTO). The DEA, for their part, make use of the term "Transnational Criminal Organizations" (TCO's) reflecting a range of criminal activities that are both global and diverse.[12]

The Mexican TCO's do not collude or cooperate to fix prices or production, but they do not operate as independent actors in a market economy either. The illegality of their business demands secrecy, and secrecy is a dark mirror held up to market efficiency that reflects back a marketplace in which buyers and sellers cannot seek each other out in safety. In a market economy there is assumed to be perfect (or near-perfect) information, accessible to all, by which buyers may seek out sellers with high-quality goods at the lowest prices; and sellers may seek buyers willing to offer high prices. The nexus where these two forces cross is the market price of a good, the "invisible hand" that has driven liberal economies across the world for four hundred years. But this cannot take place in a secret market in which buyers may not know and trust many sellers; and sellers may have access to only a few buyers. This sort of market, called a "Network Economy," strongly favors incumbents over newcomers,[13] and it is this factor that gives the TCO's their cartel-like flavor (and new actors a propensity to violence in order to break in), when in fact Sinaloa and its rivals are really conglomerates operating on a world stage, acting as agents of globalization along many of the same dimensions as any other enterprise concerned with the transnational flow of capital, goods, and services.

Specialization

Although the Sinaloa TCO has diverse lines of business in markets around the world, it may be said to engage in "concentric diversification,"[14] that is, various modes of enterprise that stand in close relation to its core area of specialization. Contrary to the general view, the specialty of the Sinaloa TCO is not drugs, although that is the main use to which they put their special talent, and the commodity that has made them the most formidable TCO in Mexico and the world's largest drug supplier. Their core specialty, actually, is the ability to create networks in secret. Sinaloa connects nodes of complexly ordered cells around the world and extracts profit at every step of connection. They connect precursor chemicals from Thailand and the Philippines[15] with a pharmaceutical lab in Guangdong; from shippers in Malaysia to biker gangs in Australia; from banking houses in Hong Kong[16] to foreign direct investments in labor markets in Honduras. Each of these connections is a secret to the others, and to the security, judicial, and tax revenue branches of each sovereign state they touch down in. The necessity of secrecy adds an untold amount of risk at every stage, and the resources necessary to manage that risk of operating in secrecy constitute a major line item to the cost-of-goods-sold accounting on Sinaloa's profit-and-loss statement.[17] In addition, like any efficient enterprise, the TCO sources goods, services, and labor from markets that specialize in those inputs, and offer higher quality at a lower unit price than the TCO could achieve on its own or acquire from competing sources. In this way, Sinaloa operates just like any other global business enterprise.

Securing a stable supply chain

The Sinaloa TCO began life as an offshoot of the Guadalajara cartel following the 1989 arrest of Miguel Ángel Félix Gallardo, "El Padrino." In the early days the only supply chain the TCO was concerned with was taking delivery of refined cocaine in Colombia, shipping it to Mexico, and then over the border to the U.S. How and where the Medellin and Cali cartels sourced their supply of raw coca leaves, the chemicals and labor necessary to turn it into base paste, and then again into refined cocaine, was no concern of Sinaloa. Soon enough, however, it would become their concern, first as the Medellin cartel fell after the 1993 killing of Pablo Escobar; and then as the Cali cartel fractured under the assaults of government troops, FARC guerrillas, and right-wing militias, all after a share of the cocaine dollars.[18] Sinaloa's new young leader, Joaquin "El Chapo" Guzmán, had wider visions from the start:

"Central America was the first stop along Guzmán's business plan for international expansion. It was a logical move to control relationships and territory in Guatemala and later Honduras that secured upstream access to one of his primary products: cocaine. From the coca bush plantations in the Andes in South America, cocaine travels from the leaf to the nostril, passing through Central America, often through Honduras or Guatemala, before landing in Mexico where it may be warehoused for a period of time before a final leg of shipment to the United States, or to Europe through Africa. When the Mexican government complicated Guzmán's plans in 2006 and 2008 for acquiring precursor chemicals for another principal product, methamphetamines, Central America served as a temporary source as he searched for options in Argentina before settling on sources in Asia, where he worked with three criminal organizations based in China."[19]

Sinaloa's move in to Asia was made initially to secure a reliable new supply chain of precursor chemicals following crackdowns on these formerly legal products in the west – first in the U.S., then in Mexico. In time, the federation realized not only supply chain efficiencies, but also the various other avenues of growth and productivity enjoyed by global corporations, including: a) Technical know-how among the more than 80,000 chemical and pharmaceutical companies that had sprung up in China, particularly in the South,[20] enabling the federation to cook their product close to the source of supply; b) deep water port shipping facilities in Hong Kong and Guangdong, for easy import-export; c) a source of high-quality, low-cost labor; d) sophisticated financial services in the well-established but rather gung-ho banking houses of Hong Kong, enabling the federation to launder money and convert assets to foreign direct investment in these overseas markets;[21] and finally, d) a robust new consumption market for their products. Both methamphetamine and cocaine use have been steadily on the rise in Asia since 2002,[22] and while the federation competed with Asian (Thai, Filipino) sources of meth, they had the cocaine market to themselves.

Leveraging labor markets at home and abroad

One of the biggest ongoing problems in the secret, high-risk, behind-the-looking-glass world of the Transnational Criminal Organizations is personnel. In *Narconomics* Tom Wainwright tells a story about a high-level cannabis dealer in the UK who was expecting delivery of a shipment from his contact in the Sinaloa federation, who hired a driver to make a run to Belgium to pick up the goods, entrusting him with 300,000 Euros which the fellow promptly took to his girlfriend's house to photograph the two of them in bed with; which photos were discovered by the driver's wife later that day; which wife promptly went to the UK border police to tip them off to the impending drugs run. The operation was blown, but the federation, far from exacting hideous and bloody revenge on the feckless driver, wrote the whole thing off.

"The mismatch between the drug business's high profits and the low capacity of its employees demonstrates perhaps the biggest problem that any drug cartel faces: human resources. Cartels face two key problems. First, they must recruit their workers in an industry that operates under secrecy, where jobs cannot be advertised and total trust is required. This problem is compounded by the fact that drugs businesses have very high levels of staff turnover. The second big human resources headache is that the cartels must manage relations with their staff, as well as their suppliers and clients, without an easy way of enforcing contractual agreements…running complex operations using an ever-churning payroll of low-skilled, unpredictable workers who are prone to sabotaging deals through sheer stupidity is no mean feat."[23]

This conundrum explains an interesting phenomenon evident in the Sinaloa federation: The relatively small number (possibly as low as 150) of high and mid-level enterprise managers. The federation may employ at any given time up to 150,000 low-level, temporary, or contract workers. But the core salaried staff have all the loyalty of family, in part because they are. The Sinaloa federation keeps their friends close, and their enemies closer, by strategic alliances of blood and family: "The cartel has revived an unlikely custom: the ancient art of dynastic marriage."[24] As in any inelastic labor market of high demand and low supply, the incentive packages of this small group of management are large. One advisor to El Chapo Guzmán recounts being paid $1million a year, once a year, in a suitcase full of cash at Christmas.[25] To supply the large, low-level workforce necessary for its domestic enterprises, the TCO's turn to the stable government institutions whose specialty is the recruitment and training of individuals ready and willing to work in the dark economy: prisons; police; and the military. To supply their low-level labor needs in overseas emerging markets — Honduras, Guatemala, Bolivia, the Philippines, Australia and the U.S — the federation forms strategic alliances with local entrepreneurs/gangs. These independent contractors, like Uber drivers, have the dual advantages of knowing the local markets well, and of having no direct liability connection with the TCO. At the very lowest level of employment, the TCO's hire children.

"In case you thought Mexican drug cartels had sunk as low as they could get, a new report details how they use children as young as 11 years old to do their murderous bidding. First, the children are enticed or manipulated into joining the cartels, and given basic weapons instruction at training camps, many of which have been discovered in the jungles along the Guatemalan border. The weapons are varied, ranging from AR-15 rifles to Uzi submachine guns, and .38 and 9-mm caliber pistols. Next, the kids are put into cells led by experienced cartel soldiers, who have some prior training with the military or police."[26]

Quite as sobering is the news that in the U.S., the Mexican TCO's have managed to recruit thousands of youngsters, in primary, secondary and preparatory schools in Texas, to form gangs under their control, in order to distribute drugs in the region. "Once students are recruited, they are put to work carrying out the following activities, sale of drugs, sale of weapons, collection of money, transit of drugs, murder, extortion, kidnapping or theft of vehicles, later to be sent to Juarez and used in violent crimes."[27]

Leveraging Technology

What will happen when the drugs business migrates online? Aside from the American states with legalized marijuana, the business already has made the leap to the digital marketplace. The first-ever online transaction was conducted over Arpanet, the university-researched, defense department-funded precursor to the world wide web, in 1972, when computer science researchers in a lab at Stanford negotiated for a bag of pot with their counterparts at MIT.[28]

In the modern age of ubiquitous connectivity, and ubiquitous scrutiny, those who require secrecy to perform untraceable transactions online use the Dark Web, the part of the internet not cataloged by search engines, and only accessible to browsers, such as TOR, that utilize a sophisticated "onion" technology that bounces from server to server and is untraceable. (In recognition, website suffixes on the Dark Web use .on, instead of the familiar .com and .org.) The first major portal for online illegal goods was Silk Road, launched in February, 2011 and run by the "Dread Pirate Roberts," aka Texan programmer and Libertarian Ross William Ulbricht. Silk Road was shut down in 2013, but during its 2 ½ year life the FBI estimates $200 million worth of transactions were conducted there, most of them drugs. Though Silk Road is gone, and Ulbrecht sentenced to life in prison, many new dark web sites sprung up to take its place, and it is estimated there are currently something in excess of 40,000+ drug transactions on the top 10 commerce sites on the dark web at any given time. These sales are negotiated in Bitcoins, the market-traded, virtual digital currency developed for untraceable transactions on the world market.[29]

Is the online drugs market good news or bad news for the cartels? Unlike in a legal market economy, the drugs business takes place in a network economy, with a relatively closed network of contacts, imperfect information, and low transparency and trust between sellers and buyers. Network markets strongly favor incumbents, with their known supply chain, and known customers. The cost of entry to new competitors is high, with their need to develop trustworthy sources and customer networks, as well as face retribution from existing market players. The offline network-economy world therefore works quite well for the TCO's. The online drug business, on the other hand, creates a market economy through anonymity that competes with the network economy. The market economy of the dark web introduces more perfect information and removes the incumbent advantage – not as good for cartels. New players gain trust by performing a number of successful transactions and earn good ratings, and sellers compete on the basis of price, quality, and customer service, rather than on their existing clandestine network. Online drug retailing and wholesaling drives prices lower, which is not good for the TCO's, nor, interestingly, for a legal system trying to curb drug use and transactions. In the online marketplace the transaction site, such as Silk Road, takes the place of the "multi-commonality drug broker" at the center of the network drugs economy. A broker, or now, website, such as this has contacts among both importers and retailers and wholesalers, and occupies the place where the single biggest leap in price occurs (from $19.5k to $78k per kilo of coke): the middleman level. While it is easy to disrupt a network economy by removing a middleman, who may be the only one who connects the supply chain with the customer base, it is difficult to disrupt the online market by removing any one network node since there are many others, and low barriers of entry to take its place.[30]

All in all, at the present time the transformative innovation of the online drugs marketplace is bad news for the TCO's. One can easily imagine, however, that an organization like Sinaloa – strong, clever, resilient, and highly adaptable – will one day coopt the online marketplace the same way they have in the bricks and mortar world.

Protecting a worldwide brand

In addition to market dominance in cocaine, meth, and marijuana, and a major position in heroin, the Sinaloa TCO possesses another asset that would be welcome on the books of any globalized conglomerate: the goodwill associated with a worldwide brand. Joaquín Guzmán Loera is one of the most recognizable names in the world, at least under his *nom de cartel*, "El Chapo." His career, in brief, reads like one of the *narcocorridos* – folksongs – composed about him: born to a poor poppy farmer in rural La Tuna, Sinaloa, educated to a third-grade level, he followed in his father's footsteps as a marijuana grower; he rose to prominence in *La Alizana de Sangre,* later the Sinaloa cartel, until his arrest and imprisonment in 1993. Once caught, El Chapo turned the high-security prison into his private realm, with catered dinners and young prostitutes, until he decided it was time to leave, and in 2001 he was rolled out the door in a laundry cart, supposedly for a bribe of $3 million dollars.

Then began the time of his greatest fame, when he lived like a ghost in the mountains, directing his Sinaloa cartel as it became the most powerful drug empire in the world, all the while dispensing favors to the poor of Sinaloa state, and battling for control of smuggling routes with the Gulf cartel, Los Zetas, and Beltran-Leyva. He was re-captured in 2014 and escaped a year later through a lighted and air conditioned tunnel, reached by trap door under the toilet of his cell, in a different prison. While on the loose this time he contrived to meet with actor Sean Penn, who interviewed him for *Rolling Stone*, and, more to El Chapo's liking, with the actress Kate del Castillo, on whom he had a bit of a crush.

Since his recapture in January of 2016, El Chapo's fame has both broadened and deepened. It is reported that knock-off copies of the shirt he wore in a photograph with Penn have been "flying off the shelves" since his arrest.[31] To the consternation of the government, one of his daughters successfully trademarked the name "El Chapo" in Mexico, authorizing its use for a number of product lines, including clothing, jewelry, leather goods, luggage, toys, sportswear, and Christmas tree lights.[32]

Anyone can be a criminal — the world is full of them. To be branded an outlaw, though, you need a legend, and a following. There is a growing conspiracy theory in Mexico today that the Presidency of Enrique Peña Nieto could not survive the humiliation of another Guzmán escape, and that El Chapo has already been quietly killed to secure his silence, and contain his legend. While his death would likely not much effect the organizational resiliency of the Sinaloa TCO – who have a cadre of well-trained, committed, related-by-marriage senior executives used to operating in networked interdependence and quite capable of continuing the organization's growth – it would certainly do wonders for the mystique of their worldwide brand. It would elevate the legend to the status of myth. With the martyred blood of El Chapo soaking the earth of Sinaloa, who could stand against them?

There is also another theory making the rounds. In this one, it wasn't El Chapo the soldiers captured in 2016 at all. It was a double, a stand-in, carefully stage-managed for just such an eventuality. In this version, El Chapo is still out there somewhere, in one of his mountain fortresses, staying off the cellphone and GPS, with all his riches, and his young wife and children, caring for the people of Sinaloa, taking care of business. Not even Coca Cola has that powerful a brand, and they, of course, started in the cocaine business.

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