



Globalization and Narcos

Manufacturing job loss resulting from international competition can carry large social costs

Melissa Dell



IN A SENSATIONAL interview published by *Rolling Stone*, actor and filmmaker Sean Penn asked Joaquín “El Chapo” Guzmán—named the world’s most powerful drug trafficker by the US government—how he became involved in the drug business. El Chapo responded: “In my [geographic] area...there are no job opportunities.” On this much, the late Nobel laureate Gary Becker—who pioneered the economic study of criminal behavior—and El Chapo could agree: economic opportunities matter for criminal behavior.

The point is also borne out in recent research. My study with Benjamin Feigenberg (University of Illinois, Chicago) and Kensuke Teshima (Hitotsubashi University) shows that Mexican manufacturing job loss—resulting from increasing trade competition with China in the US market—has played an important role in the explosion of drug violence in Mexico in recent years.

Conflicts over drug trafficking during the past decade have transformed Mexico into an epicenter of global violence, claiming over 100,000 lives (Beittel 2017). Whether weak economic performance promotes urban violence is a major policy issue, with newly elected President Andrés Manuel

López-Obrador arguing for job creation as one of the pillars of his platform to reduce drug-related violence. More generally, much of the violence in the world today is concentrated in urban areas of developing economies involved in the cocaine trade (Igarapé Institute 2017).

While international trade has brought enormous benefits to developing economies, our research on Mexico highlights that manufacturing job loss resulting from international competition can also carry large social costs. Sustainable economic integration on an international level requires collaboration on developing and implementing innovative approaches for navigating the social and distributional challenges that accompany such integration.

Job loss and crime

There has been scant research on the link between job opportunity and violent crime in urban areas of developing economies. Much of the literature on the link between opportunity and crime focuses either on industrialized countries with strong institutions or on rural conflicts in developing economies. Studies from these two settings tend to produce contradictory results: those done in rich countries typically find no such link (Draca and Machin 2015), whereas studies of rural insurgency identify a strong causal relationship between economic opportunity and conflict and crime (Dube, García-Ponce, and Thom 2016).

There is good reason to expect the link between job loss and violent crime to be stronger in poorer economies with weaker institutions, even in places like Mexico with well-developed urban labor markets, than in advanced economies. In lower-income settings, the social safety net is often weak. Criminal justice institutions typically lack resources and struggle to prevent corruption. Significantly, criminal organizations may provide extensive employment

opportunities, adding to their appeal and lowering the job search costs for unemployed people. At the same time, it is not clear that findings about rural conflict—which differs in many fundamental ways from urban crime—can be extrapolated to these settings.

In a new paper (Dell, Feigenberg, and Teshima, forthcoming) my coauthors and I fill this gap by examining how changes in urban manufacturing job opportunities resulting from international trade competition have affected drug-trade-related violence in Mexico. Trade competition in the US market between Mexico and China has been an important driver of local labor market conditions in Mexico, generating considerable popular and policy interest. This competition appears to have a damping effect on local employment opportunities that we show is uncorrelated with preexisting trends in drug trafficking and violence.

Our study concludes that if Chinese exports to the United States had not risen significantly during 2007–10, the increase in drug-related homicides in Mexico in our sample—totaling about 6,000 in 2007 and more than 20,000 in 2010—would have been about 27 percent lower. Effects are larger where international competition is likely to disproportionately affect young, less-educated men, consistent with this subgroup’s high propensity to participate in the illegal sector.

Importantly, the impact is concentrated in municipalities with a transnational drug gang presence. In contrast, there is no impact on overall and drug-related homicides in municipalities where no known drug trade operations existed initially. This underscores the role of criminal organizations in linking labor market conditions and violent crime.

Importance of incentives

We provide evidence that, in some parts of Mexico, young people are moving away from legitimate employment toward criminal activity because changes in the local labor market have made it more lucrative to traffic drugs. The decline in the opportunity cost of pursuing criminal employment makes it more lucrative for gangs to traffic drugs, which involves extensive mobilization of local labor. This in turn leads criminal organizations—or factions within them—to fight for control of these territories. Indeed, municipalities where employment opportunities decline also experience a large increase in cocaine seizures, which can serve as a reasonable proxy for

cocaine traffic in the absence of major changes in enforcement. Cocaine trafficking, which is highly lucrative—and whose destination is overwhelmingly the United States—involves extensive mobilization of lookouts, the largest group of drug trafficking organization employees.

These findings underscore the value of a Gary Becker–style approach that views violent criminality through a lens that includes economic incentives. Our results suggest that strengthening the social safety net for workers displaced by trade competition or technological change could reduce criminality by improving workers’ outside options.

In the coming years, countries with weak institutions may well be those hit hardest by workers displaced as a result of economic integration and technological change, with criminal and other actors outside traditional institutional structures poised to exploit such shocks to their advantage. These countries will need a combination of national and international measures to fight these challenges successfully. National efforts should ensure that productivity and income gains from globalization are shared, including through education and training for low-skilled youth employed in more exposed sectors.

It is likely, however, that in countries with weak institutions, national and local governments lack the resources to mitigate these challenges on their own, leaving an important role for the international community. As with the international drug trade, the reverberations will transcend international boundaries. Governments, civil society, and the international community must work together to reduce the social impact of economic integration and develop practical approaches to mitigating the costs. **FD**

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