

Does illegality breed violence? Drug trafficking and state-sponsored protection rackets

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Abstract Illegality does not necessarily breed violence. The relationship between illicit markets and violence depends on institutions of protection. When state-sponsored protection rackets form, illicit markets can be peaceful. Conversely, the breakdown of state-sponsored protection rackets, which may result from well-meaning policy reforms intended to improve law enforcement, can lead to violence. The cases of drug trafficking in contemporary Mexico and Burma show how a focus on the emergence and breakdown of state-sponsored protection rackets helps explain variation in levels of violence both within and across illicit markets.

What is the relationship between illegality and violence? According to the conventional wisdom, illegality and violence are directly connected: the less legal an activity, the more likely it is to be associated with violence, whereas the more legal the activity, the lower the likelihood of violence. This view is validated by high-profile illicit and violent markets, such as illegal drugs in Colombia and Afghanistan. Still, licit markets are not necessarily peaceful. As seen in Table 1 diamond mining in the West African countries of Sierra Leone and Liberia and emerald mining in Colombia are associated with high levels of violence.¹ Likewise, illicit markets are not necessarily violent. Whereas in the Democratic Republic of Congo, Kenya, and Zimbabwe, wildlife poaching is carried out mainly by armed gangs and military units and produces frequent violence, in Namibia and South Africa poachers employ violence only sporadically [25]. Why is the same illicit activity, poaching, associated with frequent violence in some countries but not others? Moreover, the level of violence associated

¹On the complex relationship between so-called “blood diamonds” and violence, see Snyder and Bhavnani [22]; and Snyder [21].

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Table 1 Legality and violence

		Violence	
		High	Low
Legality	No	Illegal, high violence <i>Drug trafficking</i> : Burma before 1990s, Colombia, Mexico after mid 1990s <i>Poaching</i> : Democratic Republic of Congo, Kenya, Zimbabwe	Illegal, low violence <i>Drug trafficking</i> : Burma after 1990s, Mexico before mid 1990s <i>Poaching</i> : Namibia, South Africa
	Yes	Legal, high violence <i>Diamond mining</i> : Liberia, Sierra Leone <i>Emerald mining</i> : Colombia	Legal, low violence

with an illicit activity can vary widely across time in the same country. In Burma (Myanmar), a major expansion of the narcotics industry in the 1990s occurred during a period that also saw a sharp reduction in violence. And in Mexico, a recent and dramatic upswing in narcotics-related violence was preceded by a long period of relatively low violence. Why are illicit markets associated with low levels of violence in one period and high levels in another?

Together, these examples not only challenge the conventional understanding of the relationship between legality and violence. They also highlight an important limitation of existing research: the lack of a theory that explains variation in levels of violence across different illicit markets and also within the same market over time. This article contributes to building such a theory. Focusing on illicit drugs, we argue that institutions of protection, especially what we call *state-sponsored protection rackets*, help explain varying levels of violence within and across illicit markets. Where state-sponsored institutions of protection exist, levels of violence will likely be low. Conversely, the breakdown of state-sponsored protection rackets, which may result from well-meaning reforms intended to strengthen and improve law enforcement, can ironically lead to large increases in violence.

The next section develops a theory of state-sponsored protection rackets by exploring the conditions under which these rackets form and persist as well as their effects on violence. A subsequent section analyzes the cases of drug-trafficking in Mexico and Burma, showing how the theory of state-sponsored protection rackets provides a stronger understanding of variation in the level of violence across and within illicit markets. A concluding section summarizes the argument about the pacifying effects of state-sponsored protection and then raises questions for future research.

A theory of state-sponsored protection rackets

State-sponsored protection rackets are informal institutions through which public officials refrain from enforcing the law or, alternatively, enforce it selectively against the rivals of a criminal organization, in exchange for a share of the profits generated by the organization. The central role played by public officials differentiates state-sponsored

from private rackets, which have been the focus of most research on protection.² In addition to sharing profits, criminal organizations that join state-sponsored rackets may also be expected to provide information about rivals and comply with certain behavioral expectations, for example, refraining from violence in situations where peace and order are in the interest of state officials, or helping control “public hazards,” such as common criminals and drug consumers [9] or class enemies [23]. As Lupsha [15] notes in his analysis of the reciprocal expectations that underpinned state-sponsored protection rackets in Mexico’s illicit drug economy, traffickers were expected not only to share profits with officials. They were also obliged to provide information about “dealings, associates and competition, especially about those who sought to traffic without permission. The trafficker was expected to assist the police and the political system by providing grist for the judicial mill as well as public relations materials to give the US drug enforcers. Thus, while a trafficker could gain protection and warning information; the police could gain credit, praise, and promotions; the political system gained campaign monies and control; and the US, statistics, to justify a job well done.”

As seen in the analysis below of Mexico and Burma, the emergence of state-sponsored protection rackets can have a powerful pacifying effect in illicit markets. Conversely, the breakdown of these rackets can cause an increase in violence. Before turning to the empirical material, we first explore the conditions under which these rackets form and persist.

The state: the capacity to enforce

Officials looking to forge protection rackets require the capacity to make a credible commitment to enforce the law: without a credible threat of enforcement, it makes little sense for criminal organizations to pay for *non-enforcement*. If the state lacks the power to enforce the law, illicit actors may prefer to bear the costs of haphazard and weak enforcement to paying off state officials to refrain from enforcement.³ Power is, of course, a relational concept, and the power of state officials to render a credible threat of enforcement, thereby making non-enforcement something worth purchasing, depends on the power of illicit economic actors. The stronger the illicit actors, the stronger the state has to be to induce them to participate in state-sponsored protection rackets.

The ability of state officials to construct protection rackets is strengthened when they can credibly commit not only to non-enforcement of the law for their criminal “partners,” but also to apply enforcement *selectively* against the rivals of their partners. Hence, protection in state-sponsored rackets has two faces: on one hand, state officials supply selective non-enforcement, that is, protection *from the state itself*; on the other hand, they also supply selective enforcement against rivals, that is, protection *from competitors*. The capacity of state officials to offer predictable

² See, for example, Gambetta [9].

³ We leave aside such cases of non-enforcement “by default,” that is, where the state is either absent or lacks the capacity to enforce the law even if it wanted to.

and selective non-enforcement and enforcement of the law is a key prerequisite for state-sponsored protection rackets.⁴

Criminal organizations: the capacity to comply

From the standpoint of criminal organizations, their ability to join state-sponsored protection rackets depends crucially on their capacity to offer a credible guarantee to (1) make payments to state officials, and (2) comply with any agreed on behavior, for example, refraining from violence, sharing information, and controlling “public hazards.” If a criminal organization is incapable of refraining from violence against rivals, or even its own members, state officials may face pressure generated by unwanted media attention, jittery international investors, foreign powers and multilateral agencies to stem the violence by enforcing the law, thereby making it more difficult for state officials to participate in protection rackets. To behave as reliable partners in state-sponsored protection rackets, criminal organizations thus require a certain level of internal command, control, and coherence. Moreover, they must be able to signal reliably to state actors looking for criminal partners that they are capable of delivering on their promises. At the same time, the capacity to withdraw compliance, for example by cutting off bribes to officials who do not deliver on their side of the bargain, is also a necessary component for stable protection rackets.

Protection in time and space

The likelihood that state-sponsored protection rackets will form depends on the time horizons of public officials and the relationship between the spatial organization of law enforcement, or the *geography of enforcement*, and the spatial organization of illicit markets, or the *geography of criminality*. The longer the time horizons of state officials and the greater the congruence between the geographies of enforcement and criminality, the easier it is for state-sponsored protection rackets to develop and persist.

The shadow of the future: trust, reputation, and information For state-sponsored protection rackets to emerge and endure, the time horizons of public officials need to be long. If officials are constantly rotated or purged, then stable deals with criminal organizations are hard to cut. Long time horizons increase both the reciprocity and credibility of transactions, because the repeated interactions that are possible when officials have long-term appointments are more likely to generate trust and a reputation for compliance. Research on state-business relations shows how long time horizons can increase the probability that the state and legal business associations will have strong collaborative relations [11]. Likewise, trust and a reputation for compliance can promote durable collaboration between state officials and *illicit* business organizations.

⁴ Dal Bó et al. [6] use a similar logic to explain how pressure groups extract policies more easily from government officials when they can use both transfers, such as bribes, and threats at the same time in order to get policy favors.

The length of the time horizons of state officials also affects the durability of state-sponsored protection rackets by influencing the amount of office-based knowledge and information officials can acquire. Such knowledge, which may include the most common routes used for drug trafficking, the likelihood of finding other officials who are looking to profit by offering protection, and even information about potential buyers, can have an important impact on the ability of officials to supply protection to criminal organizations. Hence, the longer the time horizons of officials, the more likely they are to have the information required to make protection work.

Boundary issues: the geography of enforcement and criminality States and criminal organizations operate in and across territory, and it is therefore important to consider the territorial dimension of law enforcement and crime when assessing how state action affects levels of violence in illicit markets. Law enforcement can be organized spatially in a variety of ways. For example, in federal political systems, national and subnational government agencies often have overlapping jurisdiction over the same territory, thereby increasing the number of potential protectors, that is, officials looking to offer protection, available to criminal organizations. Even in unitary systems, which lack potentially autonomous jurisdictions at the subnational level, responsibility for enforcing the law and administering justice is often shared across multiple government agencies, and the country may be divided into distinct, territorially-defined jurisdictions of varying sizes.

In federal and unitary systems alike, the size and configuration of the territorially-defined jurisdictions through which the law is enforced and justice dispensed can have an important impact on the likelihood that state-sponsored protection rackets will form. For example, large jurisdictions, such as a single nationwide district as might be found in a unitary system, would likely encompass multiple criminal organizations. This “one protector, many organizations” scenario is depicted in Fig. 1a. By contrast, if jurisdictions are small, the territorial scope of a single criminal organization may cross the boundaries of several jurisdictions, resulting in a “many protectors, one organization” situation, as seen in Fig. 1b. Depending on the territorial reach of criminal organizations, small or medium-sized enforcement districts may result in a “one protector, one organization” scenario, as illustrated by Fig. 1c. Finally, as seen in Fig. 1d, redrawing the jurisdictional map, for example, by decentralizing law enforcement, can alter the ratio of protectors to criminal organizations, resulting in a “many protectors, many organizations” situation. These distinct territorially-defined scenarios have contrasting consequences for the stability of state-sponsored protection rackets, and, hence, for the likelihood that illicit markets will produce violence. This can be seen by exploring the preferences of protectors and criminal organizations over these scenarios.

Protectors want to maximize the price of protection.⁵ This can best be achieved by operating as “the only game in town,” that is, by becoming a monopoly supplier of protection. Protectors also prefer to maximize the number of criminal organizations in their jurisdiction. This serves to increase their income, because

⁵ For the sake of simplicity, we assume there is no collusion among protectors or among criminal organizations.

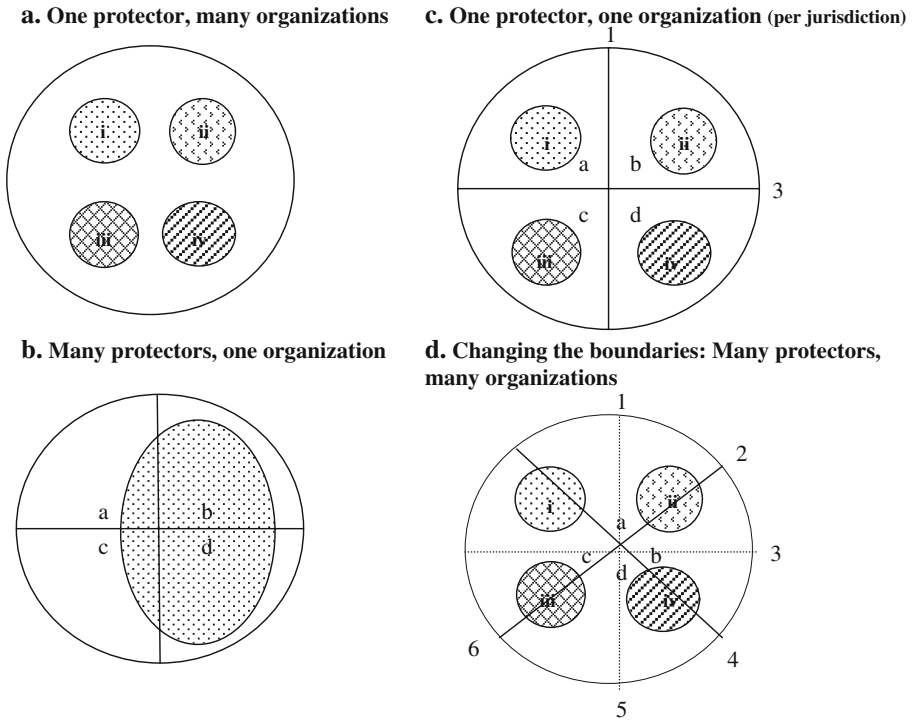


Fig. 1 The geography of enforcement and criminality. **a** One protector, many organizations. **b** Many protectors, one organization. **c** One protector, one organization (per jurisdiction). **d** Changing the boundaries: Many protectors, many organizations. Note: *Shaded areas* represent criminal organizations. *Solid lines* represent the boundaries of the jurisdictions of protectors. *Dashed lines* represent old jurisdictional boundaries. Consider protector b in scenario c. Its jurisdiction lies between points 1 and 3 and encompasses just one criminal organization (ii). If, as in scenario d, the boundaries of the jurisdiction are changed to 2 and 4, the new jurisdiction will now contain not one but two organizations (ii and iv). And if the boundaries of the jurisdiction of protector d also shift to points 4 and 6, then b and d will compete to provide protection to organization iv. Moreover, as a result of these changes to the boundaries, organizations ii and iv will compete for the protection of b

the more criminals they can protect, the higher their cut of the total criminal revenue. Competition among rival organizations for the protector’s favor drives up the price of protection, and protecting multiple organizations reduces dependence on any single source of income. Still, protectors face countervailing pressures to restrict the number of protégés. First, as the number of protected organizations increases, so do the monitoring and other transaction costs faced by protectors. According to a businessman interviewed by Gambetta [9] in his study of the Sicilian mafia, “It is easier to eat from the plate of three who cover the whole market than from that of thirty-three who cover the same market.” As the number of protected organizations grows, it becomes more costly and difficult to police all the transactions to make sure that clients are not engaging in “tax evasion.” This can increase the risk that the protector’s reputation as a force to be feared and a credible source of protection will be undermined [9]. Moreover, too many organizations can generate excessive competition that dissipates profits and thus reduces the rents available to protectors.

Criminal organizations aim to minimize the price of protection, ideally dispensing with it altogether. They prefer to have a monopoly on illicit business activities, and they prefer multiple protectors, because the competition among protectors drives down the price of protection. Moreover, having multiple protectors allows criminal organizations to reduce their dependence on any single source. However, criminal organizations also face a countervailing drive, anchored in transaction costs, to limit the number of protectors.

The different scenarios in Fig. 1 have distinct implications for violence. In the “one protector, many organizations” situation preferred by protectors, criminal organizations operating in the same jurisdiction are driven to try to eliminate rival organizations in order to lower the price of protection. Coupled with competition over market share, this rivalry may spark violence between organizations.⁶ Still, if the state has the capacity to cut durable deals with the organizations, it can mitigate struggles over market share and thus potentially maintain peace. Conversely, in the “many protectors, one organization” scenario preferred by criminal organizations, violence may occur between *protectors* as they compete to control the income generated by a single organization.

The “one protector, one organization” scenario is the least likely to generate violence, because there is no competition among either rival organizations or protectors. Moreover, the behavior of each player in the transaction is predictable, provided they have repeated interactions. Predictability, and hence stable protection rackets, is more difficult to achieve in the other scenarios because of the coordination problems posed by having multiple protectors and organizations. When there are multiple protectors, an organization may cut a deal for protection in the jurisdiction of one protector and then have to negotiate a separate deal in a different jurisdiction. This situation is further complicated by the possibility that the willingness of officials to break the law by providing protection may vary across jurisdictions. Under these conditions, not only would a protector be unable to guarantee that the criminal organization would not have to make another payment in the next jurisdiction, it would be unable to guarantee that it would not face prosecution. Likewise, if there are multiple organizations, competition among them for market share and the protector’s favor may undermine their ability to make a credible guarantee not to use violence. Although “one protector, one organization” may therefore be the least likely situation to generate violence, it is the first choice of neither protectors nor criminal organizations, but, as seen in Table 2, a second-best outcome for both. Hence, it is prone to instability, because protectors and criminal organizations alike have incentives to defect and try to get their first choice by increasing either the number of organizations or protectors.

An interesting objection regarding our specification of the preferences of protectors and criminal organizations merits consideration.⁷ A single criminal organization with monopoly control over the market should be able to generate more

⁶ It bears emphasis that deploying violence is costly to criminal organizations, because it can destroy wealth and jeopardize profits by bringing unwanted scrutiny from the public and law enforcement [19]. A more fully specified model of state-sponsored protection rackets should include as an endogenous factor the cost to both organizations and protectors of using violence.

⁷ We thank Sebastián Mazzuca for calling this matter to our attention.

Table 2 Preferences of protectors and criminal organizations over number of actors

Ratio of protectors to criminal organizations	Rank order preferences	
	Protectors	Criminal organizations
One protector, many organizations	1	4
Many protectors, one organization	4	1
One protector, one organization	2	2
Many protectors, many organizations	3	3

profits than multiple competing organizations. If, as we argue, protectors' profits are a function of organizations' profits, should not protectors stand to earn the highest amount in the face of a monopoly and therefore prefer a "one protector, one organization" over a "one protector, many organizations" situation?⁸

Although overall profits in the criminal sector may indeed be highest when there is a single organization that enjoys monopoly control and prices, protectors will not necessarily receive more income, because *their capacity to drive up the price of protection depends crucially on the presence of rival organizations*. In the absence of rival organizations, the credibility of the protector's threat to enforce the law and drive the criminal monopolist out of business is weak, because there are no alternative sources of protection income. This inability to render a credible threat of enforcement, in turn, lowers the price of protection. Protectors thus prefer multiple organizations to one. This can be seen by exploring the price of protection in two distinct scenarios: monopoly and duopoly.

Consider first a monopoly. The price of protection will be determined by the amount of income, E , the protector expects to earn by enforcing the law and shutting down the criminal organization.⁹ E is likely to be a "single-shot" reward in the form of praise and a promotion. Because collecting E is the only option the protector has to increase its income, the criminal organization knows it can purchase non-enforcement of the law by paying any amount above E . Hence, under monopoly conditions, the price of protection will be $E + 1$.¹⁰

Now, consider a duopoly. Here, the price of protection depends not just on the rewards protectors can reap by enforcing the law (E), but also on the amount, P , that a criminal organization is willing to pay to outbid its rival and stay in business. P is a function of how much income the organization would expect to lose if it were forced

⁸ Moreover, dealing with a single organization should be attractive to protectors because it lowers their transaction costs.

⁹ We assume there is just one protector.

¹⁰ We assume the protector has the capacity to put the criminal organization out of business. A more complex model would relax this assumption by considering the uncertainty protectors face about whether their efforts to shut down the organization will, in fact, succeed. Failed attempts to drive a criminal organization out of business may result not in praise and a promotion, but in criticism and a demotion or worse, especially if these failed efforts generate violence and negative publicity. A more complex model of state-sponsored protection could also allow for "incremental enforcement," which would permit protectors to alter the costs of doing business faced by criminal organizations without necessarily destroying them.

out of business. It is also a function of how much the *rival* organization is willing to pay to stay in business (i.e., its estimate of how much income it would lose if it were forced out of business). This amount is likely to far exceed the value (E) of the raise or promotion protectors can earn by enforcing the law. Hence, even though a monopoly will likely generate the most criminal profits and thus the biggest “pie,” protectors resist monopolies because the size of *their slice* of the pie is larger when there is more than one organization.¹¹

An intriguing corollary to our argument concerns the exclusivity of protection. The value of *exclusive* protection to criminal organizations should be greater than the value of shared protection. Hence, organizations ought to be willing to pay a premium price, P^* , for exclusive rights to protection. Yet the logic of our argument suggests it is against the interests of protectors to supply exclusive protection. Even though an organization may offer a premium price (P^*) for exclusive protection, it cannot credibly guarantee that it will not later renege by lowering its payment from P^* to $E+1$ after the protector forces all its rivals out of business, at which point E , the profits that can be reaped by closing down the last criminal organization, would be the protector’s only alternative source of income. Because organizations cannot make this guarantee, it is not in the interest of a protector to use its power of enforcement to produce a monopoly.¹² Criminal organizations seeking monopoly control will thus have to create and enforce their own monopoly not only against the interests of competitors, but also against the anti-monopolistic impulses of the protector. Moreover, if competition among rival criminal organizations turns violent and threatens to destroy organizations, resulting either in a monopoly, or, from the protector’s standpoint, the even worse outcome of a criminal extinction, where there are *no* surviving organizations from which to extract any protection rents, the protector will face strong incentives to intervene to try to reduce violence to “non-lethal” levels that do not eliminate organizations. To avoid a monopoly or organizational extinction, and hence a large drop in the price of protection, the protector could even be driven to play a more robust pacifying role by brokering and enforcing peace agreements among organizations.¹³

In sum, depending on the capacity of state officials to enforce, criminal organizations to comply, and the temporal and spatial factors considered, state-sponsored protection rackets may form. When these institutions persist, they can have a strong pacifying effect that lowers the level of violence in illicit markets.

¹¹ The optimal number of criminal organizations from the standpoint of a protector is not clear. Two are better than one, but are three better than two? As noted, monitoring and other transaction costs, which rise as the number of organizations increases, pose an important constraint on the number of organizations preferred by protectors. Moreover, too many organizations can generate excessive competition that would dissipate profits and thus reduce the rents available to protectors. Still, as long as competition among organizations does not reduce the rents available to a protector to an amount less than $E+1$, that is, to a level just above the value of the raise or promotion the protector can earn by enforcing the law, then it should prefer multiple organizations to one.

¹² By the same logic, no organization is willing to pay a premium price (P^*) for exclusive rights to protection, because a protector cannot make a credible commitment that, after taking the premium payment, it will actually deliver on the promise to drive all the organization’s rivals out of business.

¹³ Still, protectors may prefer some level of violence, because it can drive up the value of protection.

State-sponsored protection rackets in Mexico and Burma

To show how the theory of state-sponsored protection rackets helps us better understand why levels of violence vary widely across and within illicit markets, we analyze two cases, drug trafficking in Mexico and Burma, that experienced contrasting patterns of violence. In Mexico, a state-sponsored protection racket formed during the 1940s and endured until the late 1980s, resulting in relatively low levels of violence during this period. The breakdown of these institutions of protection in the 1990s, partly as a consequence of administrative reforms aimed at reducing corruption among state officials, led to a sharp rise in violence. Conversely, in Burma, the period preceding the 1990s saw the absence of a state-sponsored protection racket in the context of a protracted and bloody civil war. After 1990, Burma's military government successfully constructed institutions of protection in the market for illicit drugs that led to a large reduction in violence. These cases thus demonstrate how a focus on state-sponsored protection rackets helps explain changes in the levels of violence in illicit markets.

The breakdown of protection in Mexico: from stable pacts to strategic violence

Until the late 1980s, the Mexican state was able to elicit relatively peaceful behavior from drug traffickers. The monopoly of power held by a hegemonic political party, the Institutional Revolutionary Party (PRI), and the centralization of enforcement, despite the federal character of the political system, provided the capacity the state required to deliver a credible threat of enforcement. Moreover, trafficking organizations had enough internal command and coherence to be reliable partners in the state-sponsored protection racket. The result was a "one protector, many organizations" situation.¹⁴ Beginning in the late 1980s, the protection racket in Mexico weakened and eventually broke down because (1) political competition increased, severely hampering the PRI's capacity to control the enforcement and non-enforcement of the law, (2) ongoing reforms intended to reduce corruption within the Attorney General's Office (PGR) transformed the geography of enforcement, altering the ratio of protectors to organizations, and significantly shortening the time horizons of public officials, and (3) an influx of Colombian cocaine traffickers coupled with changes inside Mexican criminal organizations made the task of coordination among protectors and organizations more difficult. Together, these factors caused a breakdown of the state-sponsored protection racket, resulting in an escalation of drug-related violence.

The origins of drug trafficking in Mexico date to the late eighteenth century. As prohibitions tightened in the 1920s and the focus of enforcement shifted from public health to public security, the illicit market became increasingly linked to the political system under the control of the ruling PRI [3, 8, 20]. Traffickers cut a wide range of deals with the state that included the purchase of licenses to operate from local politicians and police, active participation in trafficking ventures by government

¹⁴ However, Astorga [3] notes that many rival drug trafficking organizations had common origins in the state of Sinaloa and thus to some extent "all of them emerged from the same root." As a result, the boundaries among the organizations were difficult to draw precisely.

agencies, such as the Federal Security Directorate (DFS) and the Federal Judicial Police (PJF), and protection of trafficking by high-level officials [3, 15].

The PRI's monopoly facilitated the protection racket because the party's hierarchical control extended across all the subnational political units that composed Mexico's federal system. The dominance of the PRI since the end of the Mexican Revolution provided the stability necessary to guarantee predictable enforcement and, crucially, non-enforcement of the law. As a result, stable pacts between traffickers and corrupt state officials proliferated. Violence occurred during the period of PRI hegemony, but it was mostly the result of retaliation by traffickers against competitors, and it never reached the levels seen in other illicit drug markets, such as Colombia's. This relatively peaceful situation changed, however, in the mid-1980s, when the PRI started to lose its monopoly of political power and a series of reforms to the PGR [4] undermined both the spatial and temporal stability required for a protection racket.

Starting in 1989, when the National Action Party (PAN) won the governorship of the state of Baja California, heightened political competition led to a growing number of subnational political units governed by opposition parties.¹⁵ The resulting heterogeneous political landscape increased the number of potential protectors available to traffickers and undercut the coordination that the shared allegiances of public officials to a single party had previously made possible. The fragmentation of the PRI's control, in turn, made it more difficult for the central state to provide the credible guarantees of enforcement and non-enforcement needed to sustain the old protection racket.

Alongside these political transformations, the PGR initiated a series of reforms in the mid-1980s that also made it harder to sustain state-sponsored protection by shortening the time horizons of state officials in three key ways: first, the reforms unleashed an ongoing process of creation and elimination of offices¹⁶; second, they mandated relocation of personnel; and, third, they resulted in mass firings of corrupt officials, as entire units, like the DFS in 1985, were shut down. The reforms of the PGR increased the rotation of police officers and civilian officials. Since the term of President Carlos Salinas de Gortari (1988–94), rotation at the highest level of command intensified, because Attorneys General began a new practice of appointing fresh teams of collaborators when they entered office. Together, purges, turnover and rotation reduced the time horizons of public officials, who were increasingly uncertain about both the length and location of their appointments. The capacity of public officials to acquire the information necessary to provide protection to criminals was thus curtailed. Moreover, the prospect of rapid removal led corrupt officials to extract as much as possible from single transactions, thereby privileging ad hoc extortion over building institutions of protection [17].

The reforms of the PGR also changed the geography of enforcement in ways that made it more difficult to sustain state-sponsored protection. Until 1996, the PGR's enforcement scheme was based on (1) central control by federal authorities, (2) a

¹⁵ Mexico is a federal system with 31 states.

¹⁶ For example, in 1985, the DFS was shut down and replaced by another centralized agency, the Center for Research and National Security (CISEN). Then, in 1993, another agency, the National Institute to Combat Drug Trafficking, was created alongside CISEN.

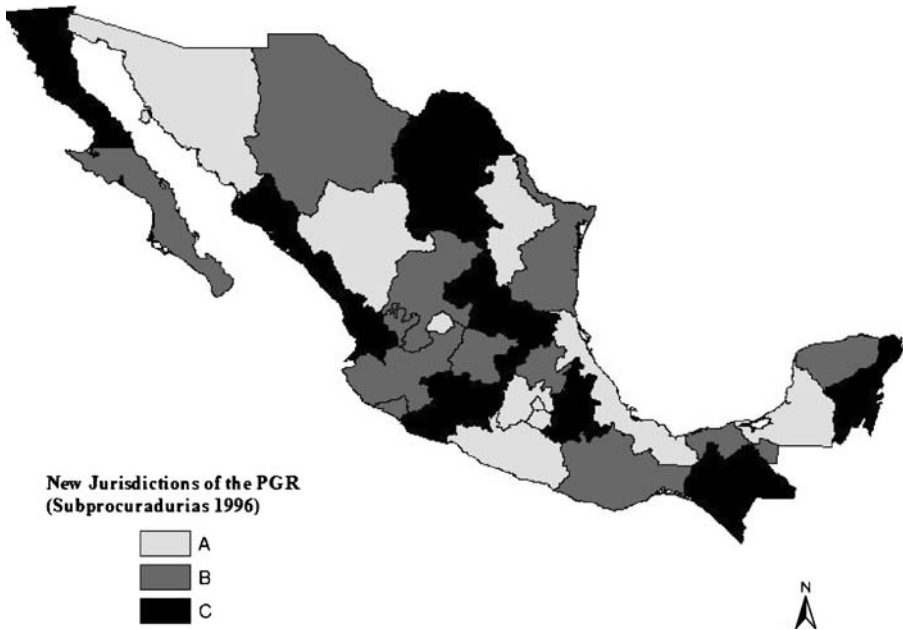


Fig. 2 Redrawing the boundaries of enforcement in Mexico: new jurisdictions created by the reform of the PGR in 1996

functional, rather than territorial, division of power across sub-agencies, and (3) a division of the PGR's field offices into three contiguous territorial zones (North, Center and South). Under this scheme, the PGR's field offices as well as subnational governments had little power compared to the agency's central command. This centralized framework allowed the PGR's officials to offer credible and stable protection to trafficking organizations across Mexico [17].

The centralized scheme was replaced in 1996 with the creation of three new Assistant Attorneys General for Prosecution (*subprocuradurias penales*). As seen in the map of Mexico in Fig. 2, each Assistant Attorney General's office controlled a set of *non-contiguous* states.¹⁷ This new non-contiguous scheme increased the responsibilities and autonomy of subnational governments and PGR field offices. From the standpoint of criminal organizations, this meant an increase in the number of actors who needed to be bribed, and it became far more difficult to determine whom to bribe in order to guarantee the transit of drug cargoes across the country. Thus, the old scenario of one enforcer, anchored in the hegemony of the PRI and the

¹⁷ The office of Assistant Attorney General "A" controlled the states of Aguascalientes, Campeche, Distrito Federal, Durango, Guerrero, México, Morelos, Nuevo León, Sonora and Veracruz; the office of Assistant Attorney General "B" controlled Baja California Sur, Chihuahua, Colima, Guanajuato, Hidalgo, Jalisco, Oaxaca, Tabasco, Tamaulipas, Yucatán and Zacatecas; and the office of Assistant Attorney General "C" controlled Baja California, Chiapas, Coahuila, Coahuila de Zaragoza, Michoacán, Nayarit, Puebla, Querétaro, Quintana Roo, San Luis Potosí, Sinaloa and Tlaxcala.

centralization of the PGR, was supplanted by a scenario of *many enforcers*, that is, the PGR's field offices, the state governments, and the PGR's central office.¹⁸ This new, territorially fragmented enforcement scheme was incongruent with the spatial organization of drug trafficking enterprises, the so-called Tijuana, Sinaloa, Gulf and Juarez cartels, which operated mainly along the lines of the old North, Center, and South divisions.¹⁹

The heightened uncertainty generated by this new enforcement framework gave criminals strong incentives to acquire their own means of protection. Indeed, the first paramilitary group created by the Gulf Cartel dates to 1997, the year after the PGR's centralized scheme was reformed. The actions of these paramilitary groups likely contributed to higher levels of drug-related violence. Moreover, the uncertainty caused by the transformation of the geography of enforcement led to conflicts among criminal organizations over market share. In the absence of a state-sponsored protection racket, violence increased because criminal organizations needed both to scare away law enforcement and defend their markets from encroachment by competitors. Instead of being an episodic response by traffickers to failed transactions, violence thus became the dominant strategy of survival.

The feasibility of state-sponsored protection rackets was also undercut by the appearance of Colombian cocaine traffickers. In the early 1980s, the US Government intensified its pressures on drug trafficking routes running from Colombia through the Caribbean to South Florida. As a result, cocaine flows shifted toward inland routes running through Mexico, and Colombian traffickers became increasingly reliant on Mexican smugglers [1]. The entrance of Colombian traffickers destabilized the state-sponsored protection racket in four ways. First, it multiplied the number of organizations, thus making it harder to achieve coordination among protectors and organizations. Second, it introduced foreign players who not only lacked the local knowledge and networks necessary to participate in the protection racket, but were also allegedly more violent than their Mexican counterparts. Third, it generated new conflicts among Mexican traffickers over whether or not to collaborate with the foreigners. Finally, the higher profitability of cocaine compared to marijuana significantly raised the stakes of drug trafficking and produced more sophisticated and powerful criminal organizations [1].

Key changes inside trafficking organizations as a result of massive extraditions and imprisonments of their leaders by the Mexican government further destabilized the protection racket by making it harder for the organizations to behave as reliable partners of corrupt state officials. For example, the capture of Benjamin Arellano Felix from the Tijuana Cartel in 2002 and the extradition to the United States of Osiel Cárdenas Guillen of the Gulf Cartel in 2007²⁰, shifted lines of command and

¹⁸ The reforms thus correspond to a shift from scenario a to d in Fig. 1.

¹⁹ The offices of the Assistant Attorneys General for Prosecution were dismantled in 2002, and the main argument to eliminate them was precisely that "the current zones comprise discontinuous territories; the same delegation can include states in the North, South and Center of the country [...] it is necessary to reform the structure in order to achieve greater coordination in the fight against crime" Justification to the Organic Law for the Attorney General's Office (LOPGR), 23 April 2002.

²⁰ In January 2007, Felipe Calderón initiated his term as President of Mexico with the mass extradition of 15 prominent drug traffickers.

reduced the internal coherence of their organizations.²¹ These internal changes, in turn, weakened the ability of the organizations to send a credible signal to officials looking for criminal partners that they could be trusted to deliver on their promises.

If our argument about the pacifying effects of state-sponsored protection in Mexico is correct, then we should observe an increase in levels of drug-related violence over the course of the 1990s, as the PRI's political monopoly eroded, and especially after 1996, when the PGR's enforcement scheme was decentralized. Moreover, this increase in drug-related violence should occur in those subnational units where the reform of the PGR resulted in new jurisdictional boundaries that cut across territory controlled by multiple trafficking organizations. Unfortunately, existing data on violence in Mexico do not provide a firm basis for testing the argument, because disaggregated statistics on drug-related violence are available neither at the national or subnational level during the period in question. Although data on *overall* homicide rates do exist for the 1990s, showing a decrease in violence during this period, valid inferences about trends in drug-related violence are difficult to draw, because drug-related slayings do not represent a stable proportion of total homicides across time or subnational units. For example, as seen in Table 3, the proportion of homicides linked to illicit drugs in the two years for which these data are, in fact, available (i.e., 2006 and 2007) shifted from 20% to 25% over the course of just one year. Moreover, the proportion of homicides related to drugs ranges from 0% to 85% across Mexican states.

Despite these limitations, the available data do allow us to test one key aspect of our argument about the effects of state-sponsored protection. We hypothesize that the PRI's monopoly of power in conjunction with the centralized scheme of the PGR resulted in coordinated law enforcement across subnational units. If this hypothesis is correct, then prior to the 1990s we should observe similar levels of violence across neighboring subnational units as a consequence of this centralized coordination of enforcement. Over the course of the 1990s, as the PRI lost power, the PGR shifted to a decentralized enforcement scheme, and the state-sponsored protection racket fragmented, we should see less convergence in levels of violence across neighboring subnational units. Using spatial analysis techniques we find evidence of just such a trend.²² Between 1981 and 1996, a clear pattern of spatial clustering of violence exists, with neighboring states having similar homicide rates.²³ In 1997, this pattern of convergent levels of violence across neighboring states disappears, as confirmed by the lack of statistical significance of the indicators of spatial clustering between

²¹ Moreover, in some cases, the seconds-in-command, who often replaced their captured or extradited leaders, had stronger military orientations than their predecessors and were thus more prone to use violence.

²² We use indexes of spatial autocorrelation (Moran's *I* and LISA maps) and simple mapping techniques that we do not report here because of space constraints. These analyses are available from the authors by request.

²³ The most significant and stable cluster of high violence during this period was located in southwest Mexico, in the states of Oaxaca, Guerrero, Chiapas, and Puebla. This cluster was likely caused by political instability unrelated to drug-trafficking dynamics.

1997 and 2003.²⁴ Moreover, in the 1990s in regions where drug trafficking organizations are concentrated, highly violent states start to appear next to states that are far less violent. For example, until 1989, Baja California Norte and Baja California Sur, two adjacent states controlled by the same trafficking organization, the Tijuana Cartel, had similar homicide levels but then diverged sharply in the 1990s. Homicide rates also diverged in the neighboring states of San Luis Potosi and Tamaulipas, controlled by the Gulf Cartel, and in Sinaloa and Nayarit, controlled by the Sinaloa Cartel. This pattern of divergent levels of violence across neighboring jurisdictions controlled by the same trafficking organizations is the type of outcome we would expect from the fragmentation of the old protection racket. Still, because disaggregated statistics on drug-related violence for the 1990s are not available, we do not know whether this pattern of diverging homicide levels across neighboring states also pertains to drug-related murders. Hence, these results should be taken at most as tentative evidence of the effects of state-sponsored protection.

In sum, we argue that democratization and anti-corruption reforms in Mexico shortened the time horizons of public officials and altered the geography of enforcement in ways that not only undercut the state-sponsored protection racket forged under PRI hegemony, but also made it difficult to replace the old centralized scheme with a new one. Violence thus supplanted state-sponsored protection as the main survival strategy of drug traffickers.

The emergence of protection in Burma: from civil war to political order

The case of the opium economy in Burma shows how the construction of a state-sponsored protection racket can lead to a reduction in levels of violence in illicit markets.²⁵ Until 1990, some 25 ethnic armies operated in Burma's remote frontiers, and many were financed through opium cultivation and trafficking [5, 13]. After 1990, opium production increased dramatically, and this illegal crop became the country's leading export. Yet the opium boom of the 1990s was surprisingly associated with a demobilization of the largest insurgent groups and a dramatic reduction in levels of violence. We argue that the opium boom contributed to a decline in violence because (1) opium provided a lucrative "exit option" for rebels, making it easier for Burma's military government to demobilize them, and (2) the military incorporated the erstwhile rebels into a state-sponsored protection racket that gave it a large share of opium revenues.

The transformation of opium from a source of violence into a source of political order began with a political crisis in Burma's urban areas in the late 1980s. After the military brutally suppressed anti-government riots by university students, thousands

²⁴ Between 1981 and 1996 the value of the Moran's *I* statistic, an indicator of spatial clustering, ranged from -0.13 to 0.48 , with a mean of 0.29 , and its significance level ranged from $p=0.001$ to $p=0.032$, with a mean of 0.02 . Between 1997 and 2003, the Moran's *I* ranged from -0.005 to -0.26 with a mean of -0.18 , and its significance level ranged from $p=0.03$ to $p=0.58$, with a mean of 0.17 . It is important to note that the Moran's *I* statistic is not usually compared across time, and, hence, the values reported here should be taken as descriptive measures and not as statistical trends. Still, the notable change in the value of the Moran's *I* statistic and its significance levels, coupled with a mapping of homicide rates over time, provide strong suggestive evidence of a lack of spatial correlation in levels of violence after 1996.

²⁵ This analysis of the case of Burma draws on Snyder [21].

Table 3 Drug slayings as a proportion of homicides in Mexico, 2006–07, by state

	2006	2007
Aguascalientes	11.54	61.36
Baja California	35.05	41.73
Baja California Sur	3.85	2.86
Campeche	163.64	4.00
Chiapas	2.60	11.88
Chihuahua	20.06	27.99
Coahuila de Zaragoza	16.35	27.10
Colima	4.65	0.00
Distrito Federal	16.71	17.10
Durango	35.36	73.03
Guanajuato	12.08	18.26
Guerrero	23.48	33.12
Hidalgo	33.33	50.00
Jalisco	9.38	20.67
México	1.77	8.92
Michoacan	54.96	42.81
Morelos	7.09	13.49
Nayarit	0.97	1.85
Nuevo Leon	29.59	38.35
Oaxaca	3.27	6.04
Puebla	1.13	0.73
Querétaro	0.00	7.14
Quintana Roo	13.43	28.10
San Luis Potosí	0.63	9.15
Sinaloa	76.59	85.64
Sonora	24.50	38.94
Tabasco	13.10	16.44
Tamaulipas	42.18	46.11
Tlaxcala	0.00	2.78
Veracruz	6.96	12.63
Yucatán	0.00	2.04
Zacatecas	15.58	17.81
All Mexico	20.47	25.61

Source: Transborder Institute [24] (drug slayings) INEGI (Homicides). The percentage for Campeche in 2006 may reflect a reporting problem

of students fled to the border areas, which were controlled by insurgent armies. Thus the military government faced the strong threat of an alliance between students and armed insurgents [12]. This situation made it imperative for the government to resolve the longstanding insurgencies in the hinterlands. The opium economy provided an important tool for achieving this goal. In exchange for signing “standfast” agreements and refraining from attacking the Burmese army, insurgent groups were tacitly given control over the drug trade in their zones. The most powerful insurgent army—the Communist Party of Burma (CPB)—was essentially

demobilized into opium, as CPB commanders were given free rein to develop the drug industry [12]. As a result of the cease-fire, production of opium boomed, more than doubling between 1986 and 1996, and heroin refineries proliferated across the CPB's former territory. Thus the CPB became the "most heavily-armed drug trafficking organization in Southeast Asia" [13]. By 1997, the Burmese military had forged similar standfast agreements with most of the country's insurgent groups. Narcotics became Burma's largest export, pumping more than half-a-billion dollars annually into the economy, an amount exceeding the government's official tax revenues [7, 10, 12]. The resulting situation fits the "one protector, many organizations" scenario depicted above in Fig. 1. The fact that the distinct insurgent groups in Burma had, over the course of the decades long civil war, consolidated control over specific territorial areas helped reduce the threat of violent inter-organizational conflict over market share and also made it easier for the military government to strike stable protection agreements with the various trafficking organizations. Moreover, like the PRI in Mexico until the late 1980s, the tenure of the Burmese military government was not subject to the vagaries of competitive electoral politics. This lengthened the time horizons of state officials, making it easier to form a durable protection racket.

In addition to helping the Burmese army demobilize insurgents, narcotics also became an important revenue source for the military government. During the 1990s, the government built a state-sponsored protection racket with former insurgents, thereby gaining a large share of the income generated by narcotics. This revenue enabled the government to weather the international embargo imposed after its suppression of pro-democracy activists and students in the late 1980s.

In addition to protection, the military government provided a range of further inducements for rebels-turned-drug-traffickers to share their wealth. First, the government made it easier to launder ill-gotten profits by offering a "tax amnesty" in 1990, which gave businessmen the chance to declare and pay a flat, 25% tax on assets they could not document, had been obtained legally. The program generated an estimated 100 million dollars for the government [13]. Moreover, the introduction in 1993 of Foreign Exchange Certificates denominated in US dollars helped drug traffickers repatriate their off-shore foreign exchange deposits. Thus drug profits that had previously been deposited outside Burma were increasingly put into domestic banks run by the military [10]. The Union of Myanmar Economic Holdings, Ltd. (UMEH) owned by active and retired military personnel and registered in 1990 under the Ministry of Defense's Directorate of Procurement, reportedly served as a major conduit for laundering drug money.

The military government also used its legal authority to offer selective benefits to drug traffickers. For example, Lo Hsing-Han, who was known as the "King of the Golden Triangle" in the 1970s and later helped broker the cease-fire agreement between the military and the CPB, lived in luxury in Rangoon, where he played golf with senior Burmese generals and ran his business empire. Khun Sa, who had been indicted on charges of drug trafficking by a US grand jury in 1989 and whom the US Ambassador to Burma called "the worst enemy the world has," turned himself in and demobilized his M \ddot{o} ng Tai Army (MTA) in a grandiose ceremony in 1996 [12, 16]. Khun Sa's "capture" allowed the Burmese military to bask in the praise of the US Drug Enforcement Administration. Yet Khun Sa was reportedly living happily under

government protection in Rangoon with four new teenage wives. Moreover, Khun Sa's capture proved an economic boon to him. Not only did being captured free him from the expense of providing his own protection by maintaining a large private army, it also opened new investment opportunities in the legal economy. Thus, soon after his arrest, Khun Sa made major investments in real estate and the hotel industry. Other narcotics kingpins reportedly saw Khun Sa's deal with the government as a model and sought to make "Khun Sa-style agreements" [13].

As a result of the government's alliance with drug traffickers, profits from narcotics were increasingly invested in legitimate businesses in Burma, rather than being laundered abroad in Thailand or Hong Kong, as had previously been the case. This stemming of "capital flight" resulted in a boom in construction, restaurants, and luxury cars in Mandalay and Rangoon, and during the 1990s the directory of the Myanmar Chamber of Commerce and Industry read like a "who's who in the drug trade." Thus a US government report concluded that the former leaders of insurgencies had benefited immensely from their good relationship with the government: "Their businesses—legitimate and illegitimate—have prospered, [and] there has been no progress in reducing opium cultivation or in stopping the heroin-trafficking activities of ethnic armies now considered part of the 'legal fold'" [12]. US Secretary of State, Madeleine Albright, succinctly described an important aspect of state-sponsored protection in Burma when she remarked, "Drug traffickers who once spent their days leading mule caravans down jungle tracks are now leading figures in [Burma's] new political order" [13].

In sum, the emergence of a state-sponsored protection racket in the narcotics market helped stem violence in Burma during the 1990s by providing a lucrative incentive for insurgent groups to demobilize and cease their rebellions. The Burmese military thus transformed narcotics from a "honey pot" for hinterland rebels into the central pillar of the national economy. This helped an internationally ostracized and investment-starved military dictatorship keep its grip on power. The case of Mexico, where democratization fueled violence by contributing to the breakdown of the state-sponsored protection racket, raises the troubling possibility that if the military were to lose power in Burma and be replaced by a democratic regime, a similar surge in drug violence could occur.

Summary and questions for future research

Illegality does not necessarily breed violence. The relationship between illicit markets and violence depends on institutions of protection: if state-sponsored protection rackets form, illicit markets can be peaceful. Conversely, the breakdown of state-sponsored protection rackets, which may result from well-intentioned reforms aiming to improve law enforcement, can lead to violence. The cases of drug trafficking in Mexico and Burma illustrate these distinct scenarios. In Mexico, a state-sponsored protection racket formed in the 1940s and endured until the late 1980s, resulting in low levels of violence linked to drug trafficking. The breakdown of the racket, due to an increase in political competition, anti-corruption reforms, and new entrants into the illicit market that, together, shortened the time horizons of state officials and altered the geography of enforcement, led to a sharp increase in

violence. In Burma, by contrast, the construction of a state-sponsored protection racket after 1990 helped quell a protracted civil war, resulting in a large reduction in violence.

This article poses several challenges for future research on illicit markets and violence. First, the state-sponsored protection rackets in Mexico and Burma operated in the context of non-democratic political regimes. Moreover, democratization played an important role in the breakdown of the protection racket in Mexico. This raises the question, are state-sponsored protection rackets feasible in democratic systems? If not, are new democracies that emerge, as in Mexico, in the face of large illicit markets doomed to high levels of violence? More generally, what is the relationship between the type of political regime and violence in illicit markets? Because democracy is “by definition a government pro tempore, a regime in which the electorate at regular intervals can hold its governors accountable and impose change” [14], durable institutions of protection may prove harder to sustain in democratic systems.²⁶ Hence, the likelihood that illicit markets will generate violence may be higher in democracies than in non-democracies.

Second, we have shown how “bringing geography in” by focusing on the spatial organization of enforcement and crime provides a stronger understanding of violence in illicit markets. As seen in Mexico, shifts in the “fit,” or congruence, between the geography of enforcement and the geography of criminality made it harder to sustain state-sponsored protection in the narcotics market, which, in turn contributed to a large increase in violence. The dealignment of the geographies of enforcement and criminality in Mexico resulted partly from policy reforms that deliberately redrew the jurisdictional map. A key task for future research involves exploring other factors besides reforms, such as changing market forces and shifts in the capacity of states to project power, that can alter the alignment between the geographies of enforcement and criminality and thus affect levels of violence in illicit markets.

Finally, we focus on one key mechanism, state-sponsored protection rackets, with a pacifying effect on illicit markets. Are there other, perhaps more normatively appealing, mechanisms that could produce a similar violence-mitigating effect? If, as suggested above, state-sponsored protection rackets are infeasible in democracies, what alternative methods are available to democratic governments for reducing violence in illicit markets? Intriguing clues about other pacifying techniques can be found in the cases of poaching in nineteenth-century Britain and crack cocaine markets in the contemporary United States. Poaching in Britain in the nineteenth century took both violent and non-violent forms. Peaceful poaching occurred when poachers (1) were local residents seen by the community as semi-legitimate “social criminals” who were poaching not for profit, but “for the pot” i.e., for food, (2) had the local knowledge to ascertain when game keepers were away, whether they were armed, and whether they were likely to put up a fight to protect the game, and (3) faced light punishment if caught [2]. By contrast, poaching led to violence when poachers were outsiders linked to urban-based gangs and stigmatized as part of the

²⁶ Still, if state officials, especially those involved in law enforcement, enjoy autonomy from elected politicians and thus are not directly subject to “democratic control”, their time horizons may be long, and, hence, they may have the capacity to forge durable institutions of protection.

“dangerous classes” emerging in industrializing cities, lacked the local knowledge required to avoid confrontations with game keepers, and faced severe punishment. Under these conditions, poachers “preferred to fight their way out of trouble if they met up with a posse of keepers” [2]. The case of poaching thus points to several conditions that may affect levels of violence in illicit markets: *cultural factors*, that is, whether or not criminals are seen as legitimate actors by the communities in which they operate, *informational factors*, especially the capacity of criminals to acquire reliable information about the probability of getting caught, and the *severity of punishment*.

Crack cocaine markets in the United States provide further insights about pacifying mechanisms. According to Reuter [18], violence in crack markets declined considerably as a result of a combination of technological and demographic factors. The introduction of cell phones and pagers meant that drug deals were increasingly carried out in locations agreed on by the buyer and seller, such as apartments, restaurants, and offices, instead of exposed street corners. This increased flexibility in the locus of illicit transactions as a result of new technologies led to a drop in violence by reducing both the vulnerability of buyers to robbery and territorially motivated conflict among sellers. Moreover, the aging of the population participating in crack markets likely had a further pacifying effect.²⁷ Demographic conditions, like the age of the population involved in illicit markets, may prove difficult to change through public policy, whereas technological parameters are probably more susceptible to policy interventions. Although a government program to distribute cell phones and BlackBerries to drug dealers and consumers might raise a public outcry, the evidence from crack markets suggests that this kind of measure could lead to a reduction in violence.

Studies that address questions such as these will provide a far stronger understanding of the complex relationship between illegality and violence.

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²⁷ Reuter [18] notes that “rates for violent crime peak early, at about ages 18–22.”

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