

A Business Perspective On Violence and Organized Crime

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Violence in Mexico has reached shocking new levels, particularly since Mexico's president, Felipe Calderón, decided to tackle organized crime head-on by involving the armed forces. The so-called "war on drugs" has brought about the death of tens of thousands of people—by the end of September 2011, the figure stood at 45 515, according to official estimates. And yet the economy continues to grow despite the severely negative impact felt by some sectors.

In light of this situation, this article sets out to identify the regions and business sectors that have been hit hardest in Mexico. I also include a diagram that aims to give a better understanding of the local workings of organized crime, un-

derstood for some time now as a multinational corporation with various departments that are not only engaged in drug trafficking but also in money laundering, contract killings—hit-men are commonly called *sicarios*—, extortion, kidnapping, people trafficking, and other activities.

MEXICO: INVESTMENT AND BUSINESS DEVELOPMENT IN A VIOLENT CONTEXT

In Mexico's current context we would expect to find organized crime impacting Mexican and foreign companies by increasing their costs, harming investments and national economies. But these effects are not at all clear. For example, foreign direct investment (FDI) figures do not reveal a noticeable down-

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ward trend. The number of victims of the so-called “war on drugs” continues to grow, but so, too, does the country’s economy. In 2011, for example, GDP increased by four percent. Some official statistics even show that the flow of foreign direct investment to Mexico’s regions with the highest levels of violence has increased or remained constant over the past decade. Indeed, recent data shows that Mexico continues to be an attractive option for investors. For example, between 2006 and 2010, Mexico received over US\$115.58 billion in investments, according to data released by the Ministry of Economy’s National Register of Foreign Investment. In 2010, Mexico received just over US\$20 billion and despite the narco violence, in 2011, it still attracted over US\$19.55 billion.¹

Even with these indicators, organized crime continues to pose a serious threat for these investments, according to various experts who agree that although Mexico has not *yet* lost international investments due to the blight of drug trafficking, alarm bells are already ringing. For example, Jeff Dayton-Johnson, head of the Americas Desk for the Organisation for Economic Co-Operation and Development (OECD), points out that “[at a] macroeconomic level, Mexico has probably not suffered from foreign investors changing their focus. [They continue] investing in Mexico but they’re afraid that the problem is getting worse and that investments are no longer viable.”² In his opinion, drug trafficking exerts a strong negative pressure on the economy of those living in areas with high levels of violence.

José Juan Ruiz, Santander bank’s chief economist and director of strategy and analysis for Latin America, admits that “drug trafficking is the fundamental threat now facing Mexico,”³ and, although he emphasizes that he has no information to prove that this scourge has frightened off foreign investors, he thinks it is clear that organized crime “creates political costs and makes investments less attractive.”⁴ And for the United States’ former ambassador to Mexico, Carlos Pascual, “The main threat facing investment and the creation of new companies in Mexico now comes from the violence gener-

ated by the drug trafficking cartels.”⁵ Pascual believes this has increased the cost of doing business, and that this “may dissuade companies from setting up their business in Mexico.”⁶

In corroboration of these statements, José Luis Hachit Rodríguez, chairman of the Mexican Council for Foreign Trade (Puebla Division), points out that this scenario is driving some foreign companies from Mexico. Hachit Rodríguez revealed, for example, that “a Dutch company suspended an investment of €3 million in the construction sector due to the war on drugs.”⁷

Battles between government forces and organized crime groups occur with increasing frequency, resulting in “the exodus of businessmen going north across the border to the United States, businesses closing, sales falling, investments being cancelled, tourism declining, companies going elsewhere, and freight carriers being fearful of using certain routes, and all this is becoming routine. Violence is hitting the Mexican economy in many ways, a phenomenon found all across Mexico.”⁸

The American Chamber of Commerce (Amcham) conducted a survey that revealed that one in every ten companies is the victim of kidnappings and 60 percent of those interviewed reported employees who had been assaulted or threatened in 2010. Nowadays it seems that in Mexico, companies factor in payments to organized crime groups as part of their operating costs. As a result, only half of the U.S. companies interviewed recently by Amcham said that they would be going ahead with plans for new investments in Mexico, and several have announced that they will set up new factories in places that were not initially planned, for security reasons.⁹

Truck and train robberies are also widespread and increasingly frequent. According to the Alianza Nacional de Transporte Multimodal (National Alliance of Multimodal Transport), these robberies cost companies around US\$700 million in 2010, a 40 percent increase in the past three years. It was also reported that, in 2010, “entire trailers carrying recently assembled cars were stolen on main highways in the states of Tamaulipas, Nuevo León, Morelos and Sinaloa.”¹⁰ In this context, “some truck drivers refuse to drive through dangerous areas, including Ciudad Juárez, where they say that criminals usually extort them and ask for about US\$70 for letting them through safely.”¹¹

The violence mostly affects the smallest companies and those located in the North of Mexico. The lack of security causes more damage to small and medium-sized producers, businesspeople, and storekeepers because organized crime

“finds it easier to get to them than to senior executives of big companies who usually work outside Mexico.”¹²

In the North, violence has intensified in recent years, particularly in the border states, whose economies have clearly suffered as a result. In 2010, only 23 companies opened in the North of Mexico (in Chihuahua, Coahuila, Durango, Nuevo León, Tamaulipas, San Luis Potosí, and Zacatecas), a figure that contrasts to the over 3 000 created in the three previous years.¹³ The National Chamber of Restaurants and Prepared Foods (Canirac) reported that in 2009 and 2010, 20 percent of their member restaurants in Chihuahua, Coahuila, Nuevo León, and Tamaulipas closed their doors due to insecurity.¹⁴

Other figures tell the same story: in Chihuahua, Ciudad Juárez Chamber of Commerce’s membership fell from 600 to 400 in 2010; many of those who withdrew are now in El Paso, Texas. In Monterrey, Nuevo León, meanwhile, 60 percent of storekeepers who are local members of the National Chamber of Commerce have reported extortions.¹⁵ The tourism sector in Tamaulipas is experiencing one of its worst-ever crises due to the very high levels of violence observed since early 2010, the year when hotel room occupation in the state fell by between 30 and 35 percent compared to 2008, with occupation rates at below 32 percent.¹⁶ Other business reports refer to “investors’ decisions to withdraw plans for an

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ethanol plant worth US\$100 million [and] the maquiladora companies and cold meat packers leaving Sonora and heading for the southern U.S. to export to Mexico what they previously produced right here.”¹⁷

A BUSINESS VISION OF ORGANIZED CRIME

In general terms, we can conclude that the violence related to organized crime has not driven away all foreign direct investment; however, Mexico’s extremely delicate situation has affected some specific areas and above all small companies and border states. But evidence does not point to investments plummeting as we might expect on observing the high levels of violence in Mexico since the so-called “war on drugs” was declared. What we do not know, as political analyst Leo Zuckermann says, is “whether we would have more [investments]

DIAGRAM

A BUSINESS VISION OF ORGANIZED CRIME



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had there not been so many criminal acts (extortions, kidnappings, murders) in some Mexican cities.”¹⁸

Despite the financial losses incurred as a result of the drug-related violence and organized crime's new *modus operandi*, “most U.S. companies already operating in Mexico say that they have no plans to leave a place where workers are paid three dollars an hour, environmental regulations are lax, with tax incentives and a very convenient location due to its proximity to the U.S. Indeed, every day imports and exports worth over US\$1 billion cross the border and provide hundreds of thousands of jobs in the United States and Mexico. Over 18 000 U.S. companies have operations in Mexico.”¹⁹ But some consider that these figures could be higher, since some foreign companies have already stopped investing in the region. For example, Gabriel Casillas, JP Morgan's chief economist for Mexico, estimates that in 2010 organized crime cost Mexico US\$4 billion in terms of FDI that did not reach Mexico.²⁰

It is worth making a final observation: organized crime could also be considered—or rather analyzed—as an enormous multinational company, as we will see below.²¹

Analysts, politicians, and journalists often attribute the current situation exclusively to drug trafficking. In fact, most argue that organized crime and drug trafficking are virtually synonymous. However, this approach seems less useful as a means of understanding the problem and offering proper solutions to it. Mexico's problem is certainly related directly to groups—or “companies”—that traffic drugs, and the federal government's strategy has been to fight those who traffic drugs. However, we should not forget that drug trafficking is not the only type of illegal business or, rather, the only type of organized crime.

Moreover, as mentioned above, the final piece of the puzzle that we must find in order to understand this complex phenomenon is that Mexican organized crime is structured and operates like a multinational corporation involving divisions and key areas such as drug trafficking (purchases and

sales), money laundering (finance), people trafficking, contract killings (a form of marketing as a way of spreading terror and sending messages to different people to be able to negotiate with or threaten them), and a new division that specializes in extortion, kidnapping, protection rackets, etc., in reality a ramification of the traditional activities of the so-called drug cartels. **MM**

NOTES

¹ Secretaría de Economía, Dirección General de Inversión Extranjera (figures as of March 31, 2012).

² EFE News Agency, “El narco en México ‘amenaza’ la inversión extranjera, advierte la OCDE,” *Excelsior* (Mexico City), December 13, 2010, http://www.excelsior.com.mx/index.php?m=nota&id_notas=696271.

³ *Ibid.*

⁴ *Ibid.*

⁵ Report, “Violencia frena la inversión en México: EU,” *El Universal* (Mexico City), April 20, 2010, <http://www.eluniversal.com.mx/notas/674143.html>.

⁶ *Ibid.*

⁷ Staff writers, “Por guerra contra narco se va inversión extranjera: IP,” *SDP Noticias*, June 1, 2011, <http://www.sdpnoticias.com/local/puebla/2011/06/01/por-guerra-contra-narco-se-va-inversion-extranjera-ip>.

⁸ “La economía mexicana, golpeada por la violencia,” *seguridadydefensa.com*, December 15, 2010, <http://www.seguridadydefensa.com/informes/la-economia-mexicana-golpeada-por-la-violencia-22657.html>.

⁹ “Violencia en México, frena inversiones de empresas de Estados Unidos,” *El Informador*, May 18, 2011, <http://www.informador.com.mx/economia/2011/293495/6/violencia-en-mexico-frena-inversiones-de-empresas-de-estados-unidos.htm>.

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² See “La economía mexicana, golpeada,” *op. cit.*

¹³ The creation of companies has shifted from the North to Central Mexico. In contrast to the 23 companies created in the North of Mexico, in 2010, 1 193 companies were set up in Mexico City's Federal District, the State of Mexico, Guerrero, and Morelos. In previous years, it was the other way around. In 2007, for example, 1 946 businesses were opened in Central Mexico and 3 437 in the North. See Verónica Gascón and Nallely Ortigoza, “Abren en el Norte menos empresas,” *Reforma* (Mexico City), March 7, 2011.

¹⁴ See “La economía mexicana, golpeada,” *op. cit.*

¹⁵ *Ibid.*

¹⁶ Efraín Klerigan, Mario Prieto, and Benigno Solís, “La inseguridad se llevó al turismo,” *conexióntotal.mx*, February 6, 2011.

¹⁷ See “La economía mexicana, golpeada,” *op. cit.*

¹⁸ Leo Zuckermann, “¿Afecta la violencia a la economía?” *Excelsior*, October 11, 2011, http://www.excelsior.com.mx/index.php?m=nota&id_notas=773994.

¹⁹ “Violencia en México. . .,” *El Informador*, *op. cit.*

²⁰ *Ibid.*

²¹ This discussion originates from a conversation I had in August 2011 with businessman Eloy Garza, CEO of Grupo Dickens, S. A. de C. V., a firm headquartered in San Pedro Garza García, Nuevo León.