

# Economic Stagnation And Violence in Mexico Too Dangerous a Cocktail

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Alejandro Bimbas/Reuters

A singular component of President Enrique Peña Nieto's anti-crime strategy is eliminating the government discourse on public security and criminal violence prevailing in different regions and cities of Mexico. This is an attempt to influence the public's perception of the phenomenon. One form of this policy are the affirmations —foolhardy as they are— that the activities of organized crime do not affect the basis of the economy or that their costs are marginal.

Shoring up a positive perception of government performance in the fight against crime is based on official reports and media campaigns that announce its abatement or containment. However, this discourse has its limits and loses

credibility in the face of the persistence and expansion of violence and public insecurity, creating skepticism in society about the possibility of denouncing them and the public's feeling that it is defenseless.

This article will analyze the impact of criminal violence and public insecurity in the institutional sphere of business and companies' behavior, as a sector that has moved from caution and evasion to pro-active demands. This is happening in an atmosphere of greater political risk because of the convergence of crime and the economy's slow growth, and its consequences, unemployment and marginalization.

PUBLIC INSECURITY, FOREIGN INVESTMENT,  
AND ECONOMIC STAGNATION

The National Statistics and Geography Institute (INEGI) has published the results of its "Encuesta nacional de victimiza-

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ción de empresas” (National Survey of Victimization of Companies), the basis for estimations of this phenomenon in 2011. It estimated that 37.4 percent of companies—that is, four out of ten—were the victims of a crime in that year. At the same time, 41.6 percent of large companies, 36.6 percent in industry and 32.7 percent in the service sector, were likewise affected.

The survey revealed that neither big companies nor any others escaped public insecurity: 63.1 percent have been victimized; 62.5 percent of the medium-sized firms and 57.8 percent of small ones. The direct economic cost of crimes against companies was calculated at Mex\$115.2 billion (approximately US\$10 billion), a little under 1 percent of the gross domestic product. The companies affected, on average targets of three crimes each, totaled 1 389 000.<sup>1</sup>

Significantly, the survey also showed that nationwide, 59.3 percent of companies see public insecurity and crime as the most important problems they have to deal with, followed by the public’s low purchasing power (40 percent) and the lack of government support (38.1 percent). With regard to the deterioration of the business environment, 76 percent said that the state or the capital where they operate is unsafe (see Table 1).

Specialists are debating about the economic costs and benefits that illegal activities generate macro-economically; this includes everything from drug trafficking, extortion, and kidnapping to illegal manufacture of products, prostitution, and human trafficking. One point of view underlines the negative effects of criminal activity, estimating that they outweigh the benefits. For these analysts, the net result is negative in terms of growth, investment, and the market. Other less well-known approaches posit that the benefits from drug trafficking are higher than the costs since, they argue, it creates jobs, investment, and cash flow into the country.<sup>2</sup>

Some analysts state that it is not clear that criminal violence has negative macro-economic impacts and underline that production has been maintained. They argue that foreign direct investment (FDI) flows, a key variable for growth,

TABLE 1  
MAIN INDICATORS IN THE NATIONAL SURVEY OF VICTIMIZATION OF COMPANIES (2012)

Economic units that were crime victims in 2011	Absolute number	1 389 000
	Rate per 10 000 economic units	3 737
	Percent of economic units	37.4
Crimes, 2011 (Economic units)	Absolute number	4 324 529
	Average per victimized economic unit	3.1
Unreported crimes, 2011 (uninvestigated crimes)	Absolute number	3 810 888
	Percent	88.1
Percentage of economic units that perceive insecurity (May to July 2012)	State (%)	76.0
Perception of municipal police performance (May to July 2012)	Percent (very and somewhat effective)	37.6
Perception of state police performance (May to July 2012)	Percent (very and somewhat effective)	44.4
Estimated total cost due to insecurity and crime in economic units	Absolute number	Mex\$115.2 billion
	Percentage of GDP	0.75
	Average per economic unit	Mex\$56 774

Source: INEGI, <http://www.inegi.org.mx/est/contenidos/proyectos/encuestas/establecimientos/otras/enve/enve2012/>.

are high. Between 2006 and 2010, the years of former President Felipe Calderón's "war against drug trafficking," FDI averaged US\$23 billion; in 2007, it came to US\$31.49 billion and during the 2009 crisis, US\$16.12 billion.<sup>3</sup>

It is true that foreign investment is high and in 2013 it rose to a record US\$35.2 billion, but this number is inflated because of the sale of the country's biggest beer producing consortium, Grupo Modelo, for US\$13 billion to Belgian multinational Anheuser-Busch InBev. This operation does not really qualify as direct investment given that it is a transfer of assets (plants, equipment, transport, etc.) for a payment, which in and of itself creates no new jobs or investments in equipment.<sup>4</sup> Despite the entry of this foreign capital, the Mexican economy has grown slowly: in the last eight years it averaged 2.2 percent of GDP, a figure that in the United States, Germany, or Spain would be considered good, but not in Mexico, whose average growth rate is lower than Brazil's 4 percent a year, Colombia's 5 percent, and far from China's (see Table 2).

The impact of foreign direct investment on economic growth is overestimated. In the first quarter of 2014, overall output grew only a modest 1.8 percent, while manufacturing moved ahead 1.6 percent and services, 1.8 percent. This means that annual growth expectations dropped from 4 percent to less than 2 percent for annual output. The economy cannot seem to climb out of a cycle of "stabilizing stagnation" that has lasted more than 20 years. Under these conditions, the government's strategic objective of improving the country's competitiveness and productivity may well be postponed until further notice.

Recent research underlines that violence is not a determining factor in competitiveness, but its prolonged existence

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does have an impact on more than 190 variables, particularly in economic performance, government efficiency, the business environment, and infrastructure. These studies, then, warn about the urgency of making substantive strides forward in public security that will contribute to creating an institutional context to generate trust in economic agents and society itself.<sup>5</sup>

The Organization for Economic Co-operation and Development (OECD), for its part, admits that organized crime has an impact on growth, employment, and competitiveness. Mexico is the country with the highest rate of murders and the greatest regional disparities among OECD members, reflected, for example, in the fact that the murder rate in Chihuahua is 56 times higher than in Yucatán.<sup>6</sup>

Helen Clark, the head of the United Nations Program for Development (UNPD), agrees on the effect of high levels of violence on Mexico's economic growth and development, emphasizing that it has a greater effect on the poor and marginalized. Clark has stated that in marginalized communities there is more violence and participation or recruitment of young people by organized crime. She argues that one of the keys for getting out of poverty and decreasing the differences between rich and poor is precisely the creation of decent jobs and underlines the need to have trustworthy police forces and an effective justice system, prerequisites for economic growth.<sup>7</sup>

TABLE 2  
GROSS DOMESTIC PRODUCT, MEXICO, BRAZIL, COLOMBIA AND CHINA  
(AVERAGE GROWTH, 2005-2012)

Country	2005-2012 (%)	2011 (%)	2012 (%)
Mexico	2.2	4.0	2.0
Brazil	4.0	3.0	1.0
Colombia	5.0	7.0	4.0
China	10.0	9.0	8.0

Source: World Trade Organization, Trade Profiles, March 2014, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=BR%2cCO%2cMX%2cC>.

Thomas Wissing, the director of the International Labour Organization (ILO) Country Office for Mexico and Cuba, states that young people who are not studying and are unemployed “could be easy prey” for criminal organizations. So, he underlines the urgency of creating policies to narrow the gap between universities and labor practices. In Mexico, almost 25 percent of undergraduates see no sense in continuing their studies, have no opportunity to do so, and also cannot join the labor market. Ours is the country with the third-highest percentage of young people living in these conditions among OECD member countries, surpassed only by Israel (27.6 percent) and Turkey (34.6 percent).<sup>8</sup>

RESPONSE FROM BUSINESS: FROM MODERATION TO PUBLIC DEMANDS

The business sector’s response has undergone interesting changes that show a more realistic, pro-active attitude, which I will briefly review here. In December 2012, Cementos Mexicanos (Cemex), one of the most powerful Mexican-owned multinationals, was subject to extortion and threats in Acapulco, in the state of Guerrero. Other businesspeople, owners of restaurants, hotels, and cattle ranches, publically denounced similar attacks. This forced the federal and state governments to announce new police measures that at the

end of 2013 came to be called the “Safe Guerrero” program.<sup>9</sup> In mid-2012, the Sabritas company, which makes chips and snacks for the national market and has a strong position in sweets nationwide and in Central America, was subject to sabotage with fires in its installations and vehicles in the states of Michoacán and Guanajuato. This was a coordinated attack by criminal organizations in six cities in those states when the company refused to pay for “protection.”<sup>10</sup>

Kroll Mexico City, a consulting firm for risk mitigation and prevention against corruption and fraud, recommends specific measures to protect companies and prevent practices such as bribery or extortion. It calculates that in the last three years, these kinds of acts in companies have increased 13 percent. In its survey, the INEGI reports businesspersons surveyed considered corruption to be the most frequent crime in their companies (24.7 percent), followed by burglary or theft of merchandise, money, or goods (22.6 percent), and extortion (14.5 percent) (see Table 3).

Mexico is the OECD country with the highest murder rate and the greatest regional disparities, reflected, for example, in the fact that the murder rate in Chihuahua is 56 times higher than in Yucatán.

TABLE 3  
MOST FREQUENT CRIMES AGAINST COMPANIES, BY SIZE (2011)

Size	Most Frequent	Second Most Frequent	Third Most Frequent
National	Corruption	Theft or burglary of merchandise, money, inputs, or goods	Extortion
Micro	Corruption	Theft or burglary of merchandise, money, inputs, or goods	Extortion
Small	Corruption	Theft or burglary of merchandise, money, inputs, or goods	Extortion
Medium-sized	Theft or burglary of merchandise, money, inputs, or goods	Corruption	Petty thievery
Large	Theft or burglary of merchandise, money, inputs, or goods	Theft of merchandise in transit	Corruption

Source: INEGI, “Encuesta nacional de victimización a empresas 2012,” <http://www.inegi.org.mx/est/contenidos/proyectos/encuestas/establecimientos/otras/enve/enve2012/>.

Part of the public's response has been the radical, massive creation of community guards and armed self-defense groups, who had an important media impact.

The geographical spread of an atmosphere of insecurity has created a thriving market of highly profitable security goods and services in Mexico. The year 2015 will see the thirteenth edition of "Expo Security Mexico," bringing together 300 manufacturers, distributors, and merchandizers who do demonstrations for businesspersons and public officials interested in systems to detect intruders, biometrics, detection of explosives, and tracking and armoring vehicles.

Part of the public's response has been the radical, massive creation of community guards and armed self-defense groups, who had an important media impact in 2013 and 2014. These are community organizations with a strong rural component that includes small and middle-sized agricultural business people and professionals who decided to take back control of the towns and lands in many municipalities dominated by criminal organizations in Michoacán and Guerrero.

#### ECONOMIC STAGNATION, CRIMINALITY, AND POLITICAL COSTS

A study called "México: política, sociedad y cambio" (Mexico: Politics, Society, and Change), carried out in mid-2013 by the polling firm GEA-ISA, reported that, when asked what the current administration's greatest success was, 58 percent of those surveyed said "none" or "don't know." This can be interpreted as a lack of perception of the administration's achievements. When asked how many approved of Peña Nieto's administration, 45 percent responded favorably, a drop from the 55 percent who had approved three months before. According to the survey, among the causes of Peña Nieto's diminishing popularity was, first of all, a perception that the economy was getting worse, followed by lack of public safety. It also showed that one-third of the population would be willing to participate in protests because of economic conditions, insecurity, and corruption.<sup>11</sup>

Different answers have been given to the questions of who will pay the political costs of insecurity and criminal violence and how they will do so. One answer is that accept-

ing the costs is linked with which institution society sees as responsible.<sup>12</sup> On the list are the state and authorities as guarantors of security of individuals and their property. However, the drop in the administration's popularity ratings does not necessarily imply that the costs for the authorities and the party in office will be significant. In Mexico, the public has tended to fragment institutional responsibility for organized crime and its effects among actors and public entities like courts, judges, police forces, attorneys general, and the chambers of Congress themselves. Under these conditions, this dispersal of responsibility makes it possible for the economic and political costs of insecurity and criminal violence to be diluted among Mexican society. ■■

#### NOTES

<sup>1</sup> INEGI, "Encuesta nacional de victimización de empresas 2012," <http://consulta.mx/web/index.php/estudios-e-investigaciones/otros-estudios/408-inegi-encuesta-nacional-de-victimizacion-de-empresas-enve>.

<sup>2</sup> Viridiana Ríos, "Evaluating the Economic Impact of Mexico's Drug Trafficking Industry," Department of Government, Harvard University, 2008, [http://www.gov.harvard.edu/files/Rios2008\\_MexicanDrugMarket.pdf](http://www.gov.harvard.edu/files/Rios2008_MexicanDrugMarket.pdf).

<sup>3</sup> Guadalupe Correa, "Violence and FDI in Mexico. The Economic Impact of the 'War against Drugs'," *Voices of Mexico* 96, Spring-Summer, 2013.

<sup>4</sup> INEGI, "Producto Interno Bruto en México durante el primer trimestre de 2014," May 23, 2014, <http://www.inegi.org.mx/inegi/contenidos/espanol/prensa/comunicados/pibbol.pdf>.

<sup>5</sup> Elvira Naranjo, "La competitividad de los estados mexicanos, 2012. La ruta hacia el desarrollo" (Monterrey: Escuela de Graduados en Administración Pública, ITESM, 2012).

<sup>6</sup> "Cambio de gobierno no debe ser motivo para bajar guardia ante crimen: SNSP," *La crónica de hoy* (Mexico City), February 24, 2013, <http://www.cronica.com.mx/notas/2012/703259.html>, quoting a 2013 Ministry of the Economy publication of a study by the OCDE and the Mexican Institute for Competitiveness (IMCO), "Seguridad, justicia penal y competitividad."

<sup>7</sup> Mariana León, "Justicia efectiva, clave en la lucha contra la pobreza. Entrevista con Helen Clark," *El Universal* (Mexico City), April 19, 2014, p. A9.

<sup>8</sup> OCDE, "México. Panorama de la educación 2013," [http://www.oecd.org/edu/Mexico\\_EAG2013%20Country%20note%20\(ESP\).pdf](http://www.oecd.org/edu/Mexico_EAG2013%20Country%20note%20(ESP).pdf).

<sup>9</sup> Adriana Covarrubias/Redacción, "Pedirán apoyo federal por extorsión a Cemex," *El Universal* (Mexico City), November 30, 2012, p. F1.

<sup>10</sup> "Queman instalaciones de Sabritas en Guanajuato y Michoacán," *Animal político*, May 2012, <http://www.animalpolitico.com/2012/05/queman-instalaciones-de-sabritas-en-guanajuato-y-michoacan/#ixzz358eqzkk>.

<sup>11</sup> "En un año, Peña Nieto pierde 18 puntos en la aprobación de su mandato: encuesta GEA-ISA; 52 por ciento desapueba su gestión," *Sin embargo.mx*, <http://www.sinembargo.mx/09-04-2014/958153>.

<sup>12</sup> Luis V. León, "El joropo venezolano: inseguridad, inflación y desabastecimiento," *Vanguardia. Dossier no. 49*, October-December 2013.

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