

MONTHLY INTELLIGENCE FORECAST

Predictive Analysis for Business Resiliency Worldwide



IN THE SPOTLIGHT

Mexico – Drug Trafficking and Violence:

Violent crime related to drug trafficking continues to escalate in Mexico and has sparked widespread concern about the strength of the Mexican state and the safety of multinationals' operations. In general, drug cartels have not targeted multinational facilities, personnel or supply chains directly, and the violence has largely remained within the drug business. In spite of rising crime rates, foreign companies are continuing to invest in the country. Nevertheless, the threat of drug violence will continue rise in the near to medium term; exposure will likely vary by operational location.

The international media has spotlighted Mexico's drug war in recent months, particularly after a U.S. Joint Forces Command report released in late 2008 said Mexico could become a failed state. Drug trafficking and related violence, however, are not new to Mexico, and the claim that the country could become a failed state is a significant exaggeration of the political and security situation there. Although the security situation has deteriorated substantially over the last two years, Mexico has mature government institutions and continues to provide adequate education, infrastructure and other services to its population. President Felipe Calderon has proven an effective leader capable of overcoming historically difficult political boundaries, passing important legislation though a divided congress. The government is, overall, much more stable than it was immediately following the 2006 election that put him in power. Still, drug-related murders more than tripled between 2006 and 2008, from 1,600 to over 5,400. This rise, however, coincides with increased pressure on drug cartels by Calderon, who has deployed nearly 40,000 troops throughout the country to support and train law enforcement agencies that were largely ineffective on their own.

Calderon's push to bring cartels down has significantly constrained criminal organizations' operations; as a result, they are now fighting each other over lucrative trafficking routes. The United Nations 2008 World Drug Report cited a decrease in cocaine seizures in Mexico, attributing the progress to Calderon's efforts. In retaliation, drug cartels have resorted to extremely violent tactics; nevertheless, over 90 percent of drug-related murder victims

have been cartel members or law enforcement officials. Although the violence has been largely contained within organized crime, the rising insecurity has incited fear among the general population, especially as some victims have been caught in the crossfire of a random attack. This type of collateral damage poses a threat to the population at large, including employees of multinational firms.

Meanwhile, foreign companies continue to invest in Mexico. Recently, Hershey's announced that it would move production of York Peppermint Patties from Pennsylvania to a factory in Monterrey; Wal-Mart Mexico announced a 2009 expansion of 252 stores, at a cost of USD 808 million; and Chinese car company Changan Auto plans to build a plant in Mexico to manufacture 50,000 cars per year. Tourism has also increased in Mexico over the past year, although tourism to the border region has dropped.

Despite these investments, Mexico's widespread drug-related violence continues to be a major security threat; the severity of that threat to multinationals, however, varies geographically. Drug violence is a problem in all Mexican states, but most areas of the country have not seen the levels of violence characteristic of some northern border cities, where criminal groups such as Los Zetas and the Beltran Leyva brothers, as well as the Sinaloa and Tijuana cartels, continue to fight for control. As a result, Mexico's border with the U.S. is most at risk. In 2008, authorities reported over 1,600 drug-related murders in Ciudad Juarez and 700 in Tijuana. On the other hand, Monterrey, which is about 150 km (93 miles) from the border, registered fewer than 100 drug murders in 2008. Mexico City, despite very high crime rates in general, has seen comparatively moderate levels of drug violence. Other popular cities for investment, such as Queretaro, have also experienced less violence. These trends could, of course, change over time. Over the past year, drug activity has extended to other areas of Mexico, including smaller towns where cartels can carry out operations with less resistance; Monterrey has already experienced escalated crime rates; and cartel assassins recently killed a former army general near Cancun, a popular tourist destination that has generally had less exposure to such crimes.

In the near term, cartels will continue to put pressure on the Mexican state in an attempt to discourage its efforts to bring them down. For example, they recently bribed poor citizens with cash, cell phones and school supplies to protest against military officials in several cities, mostly near the U.S. border. The protesters blocked several roads in Reynosa, Nuevo Laredo and other border cities, forcing border crossings closed for several hours on Feb. 18. Days later, the Ciudad Juarez police chief resigned after receiving threats that cartels would execute a police officer every 48 hours until he left office, and armed men attacked the Chihuahua governor's motorcade, killing his body guard. Such intimidation tactics have proved to be effective, showing that drug cartels may be capable of influencing local political and law enforcement institutions. Corruption among police and in the military is also a continuing concern. While the Mexican population is generally supportive of the military – which has historically been less corrupt than the police – it appears that the more exposure soldiers have to the drug business, the more susceptible they are. Recently, cartels paid a high-ranking official nearly USD 100,000 per month for information on military anti-drug operations.

On the government side, Calderon has promised to continue military pressure. He deployed 4,000 troops to Ciudad Juarez in recent days, in addition to the nearly 3,000 already stationed there. Along with the increase in troops, the military will now play an increased role in local law enforcement, bolstering security in the city. Mexico and the U.S. have also signed the "Merida Initiative," under which Mexico will receive some USD 400 million in 2009 toward its anti-drug efforts in the form of surveillance and operational equipment, military and police training, and judicial reform. What the long-term effects of the initiative and Calderon's strategies will be are not yet clear, but violence will likely continue to escalate in the near to medium term as long as cartels continue to battle for trafficking routes. In this regard, drug violence will remain a significant concern for businesses operating in Mexico.

UPCOMING SIGNIFICANT DATES

Date	Location	Event – Impact
March 15	El Salvador	Presidential elections – Civil unrest possible.

Prepared by the Americas analytical team: Tobias Friedl, Chris Kimble and Megan Wolfram.



ABOUT iJET

iJET® Intelligent Risk Systems (www.ijet.com) is a leading provider of global intelligence and business resiliency services, helping multinational corporations and government organizations monitor, protect against and respond to global threats. Integrating world-class open source intelligence with patented technology, iJET's award-winning Worldcue® solutions help clients monitor and assess global threats relative to their key people, facilities and supply chain assets; automatically track and communicate with travelers and expatriates; and deploy emergency response services throughout the world at a moment's notice. Providing a unified view of threats to assets, iJET enables clients to mitigate risks, reduce corporate liability and prepare for and respond to crises.

For additional information please visit www.ijet.com or contact info@ijet.com.