

Doing Business in Mexico: Risk and Security Assessment

The recent visit of United States President Joe Biden and Canadian Prime Minister Justin Trudeau to Mexico in January 2023 for the North American Leaders Summit underlined how critical Mexico-specific safety considerations have become for the region at large.

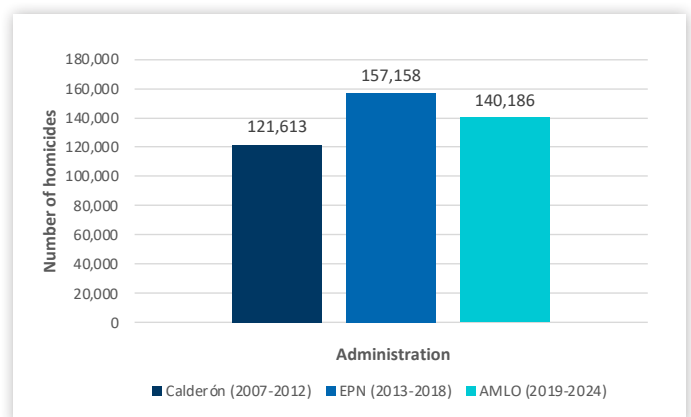
Not only was it ranked among the key issues to discuss, but the three leaders appeared to agree that enhanced multilateral cooperation to address border security and drug trafficking is needed. If value chains are to be fully integrated and North America is to become the manufacturing powerhouse of next-generation products, there is no question that questions involving safety need to improve at a macro level in Mexico and, even more critically, investors need to gain a strategic edge in analyzing and reacting to micro level security conditions prevailing in the areas where they operate. With improved conditions and enhanced intelligence, much-needed cross-border investments can thrive.¹

This issue brief analyzes a number of relevant security criteria that should be addressed while doing business in Mexico. As such, it proposes to move beyond the presentation of official statistics and present the criteria for a richer assessment that considers specific location, industry sector, as well as the population and the private companies' perception of security conditions in each region.

In Mexico, security remains one of the main concerns for foreign investors, particularly in certain regions of the country, which can disrupt the natural competitive advantages that Mexico provides.² It is therefore relevant for organizations to understand the real risks associated with the security conditions prevailing in Mexico, including the different operating realities across the country's regions and business sectors.

During his fourth annual message delivered in September 2022, Mexican President Andrés Manuel López Obrador (“AMLO”) announced that there had been a 10% decrease in homicides compared to previous presidential administrations. Analysts criticized the data he was using and responded that the 10% decrease actually corresponded to the variation between his first year in office (2019) and 2022 and not to the total number of reported homicides.³ According to the Mexican National Institute of Statistics and Geography (“INEGI”), the following are the official statistics for homicide deaths in Mexico under recent administrations:⁴

Figure 1 - Homicides in Mexico 2007-2022



Source: own elaboration with data from INEGI 2002-2021. The figure for 2022 is an estimate presented by the Federal Government in December 2022. INEGI's definitive number will be disclosed in 2023.⁵ In Mexico, each presidential administration covers six years. For comparative purposes, the data for December 2012 and 2018 was included in the figures of the respective outgoing administration.

Regardless of President AMLO's claim and the unending discussion in Mexico around the accuracy of the official figures, unofficial data show that the total number of homicides has reached the highest levels in history during President AMLO's administration.⁶ The controversy between the government's official numbers, the pundits, and the press, as well as the disparity in which statistics are interpreted, only adds to the complexity for those attempting to precisely understand the security situation in Mexico.

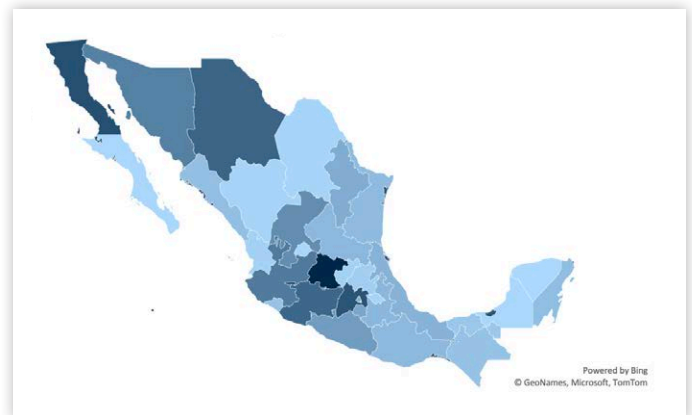
Furthermore, discussions around the figures published by Mexican agencies are not necessarily meaningful for the private sector as they outline general trends that may be of little practical value. Investors and companies that operate — or intend to operate — in Mexico require more precise information and a tailored analysis that enables them to evaluate the threats and risks of conducting their specific business activities in the country.

One fundamental aspect of understanding the security conditions while doing business in Mexico is location. Violence, including the potential threat of violence, is not homogeneous across the country. According to 2021 data from the World Population Review⁷ and the United Nations Office on Drugs and Crime ("UNODC")⁸, the violence in certain states in Mexico is comparable to some of the most insecure countries in the world based on the homicide count per 100,000 population including Guatemala (3,881), Bangladesh (3,830), Honduras (3,732), El Salvador (3,340) and Iraq (3,339). According to data from INEGI, in 2021 (information from 2022 will be released in 2023) some Mexican states even reported a higher number of homicides than countries in the midst of war or other severe social conflicts. Those states include Guanajuato (4,172), Baja California (3,216), Estado de México (3,109), Chihuahua (2,728) and Michoacán (2,672).

On the other hand, data from the World Population Review and the UNODC, indicate that other states in Mexico can be compared to some of the safest countries in the world, such as Belgium (193), Guyana (111), Finland (90), Portugal (81), Denmark (58) or Switzerland (50). These Mexican states include Durango (147), Aguascalientes (97), Campeche (87), Baja California Sur (71) and Yucatán (55).⁹

The following map provides a state-by-state comparison of the total number of annual homicides reported by INEGI in 2021:

Figure 2 - Homicides by State in Mexico 2021



Source: own elaboration with data from INEGI 2022.

Perception of Violence

Actual perpetrated violence is a meaningful statistic, but the perception and threat of violence is an additional layer of information to incorporate into a security analysis. According to the 2022 Business Security Survey conducted by the American Chamber of Commerce of Mexico ("AmCham"), the major security concerns for companies in 2021 were the following:¹⁰

1. Cargo transport, supply chain attacks and robbery¹¹
2. Offenses, threats and aggravated assault to employees and/or their relatives
3. Physical security, intrusion of facilities and burglary¹²
4. Travel protocols
5. Information leaks, data security and cyber-attacks

These key concerns were confirmed separately by the Mexican Association of Private Security Companies ("AMESP")¹³ and the Confederation of National Chambers of Commerce, Services and Tourism of Mexico ("Concanaco").¹⁴

Companies consulted by AmCham provided the following perceptions of security and violence by state in 2021:

	HIGHER SECURITY CONCERNS	LOWER SECURITY CONCERNS
1.	Estado de México	Hidalgo
2.	Guanajuato	Morelos
3.	Mexico City	Nayarit
4.	Michoacán	Oaxaca
5.	Jalisco	Tabasco
6.	Tamaulipas	Quintana Roo
7.	Nuevo León	Tlaxcala
8.	Puebla	Yucatán
9.	Veracruz	Baja California Sur
10.	Chihuahua	Campeche

As illustrated above, the private sector’s perception of security and violence differ from data presented by the Federal Government. For example, Baja California, a key state for the maquila and manufacturing industries that borders the United States, registered the second highest number of homicides in 2021 (Murders by State in 2021: 3,216); however, according to the AmCham, Baja California did not even make the Top 10 states in terms of security concerns for private companies operating in the state.¹⁵ The data reveal that private companies must complement the information produced by security authorities with local level information from experts, peers and other operators on the ground to build an accurate picture of operating conditions.

Sector Considerations and Specific Threat Analysis

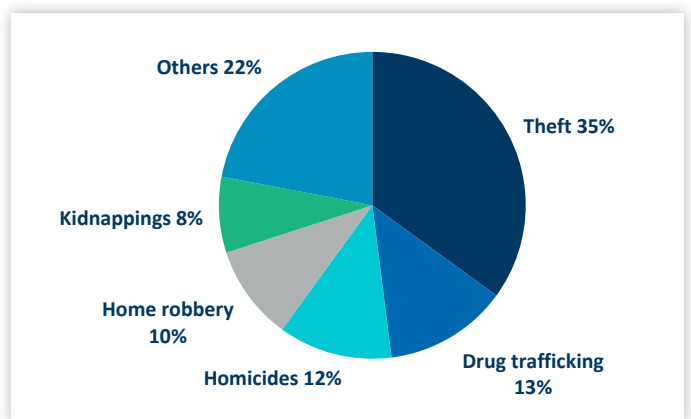
In short, business sectors matter. Mining companies in Northern Mexico face qualitatively and quantitatively different threats¹⁶ than those encountered by energy firms operating in the Gulf of Mexico.¹⁷ Transporting goods throughout the roads in the Bajío region (states of Aguascalientes, Jalisco, Guanajuato, Querétaro, San Luis Potosí and Zacatecas) imply different risks than those that arise from operating a factory or a retail chain in the same zone.¹⁸

Complete scrutiny should also consider the capability of a threat source to carry out harmful action against the companies, as well as the motivation and the threat source’s degree of intent to target the organizations, facilities, personnel, assets or other aspects of their operations. Insight into the threat sources, capabilities and intent, including access to financial, logistical, technical, and other expertise and resources, should be examined as well.

Furthermore, a comprehensive assessment should include a study of several additional factors, including: (a) Organized crime activity in the zone; (b) Homicide; (c) Extortion, racketeering and “derecho de piso” (the on-going extortion of a business); (d) Kidnapping; (e) Security conditions on highways and roads; (f) Crimes against employees and workers in the energy sector; (g) Crimes against energy facilities and infrastructure; and (h) Crimes targeting expatriates.

Laying in the local population’s perspective is also key, which may differ from multinational companies and even large Mexican conglomerates. According to a national survey conducted in August 2022, 45% of the Mexican population considers insecurity to be the country’s main problem.¹⁹ Among the respondents who claimed that insecurity was Mexico’s main problem, the concerns were broken down into the following areas:²⁰

Figure 3 - Main Security Concerns



Source: own elaboration with data from INEGI 2022.

The survey demonstrates that the Mexican population has a different perspective regarding security conditions in Mexico. Most Mexicans are concerned about assaults or home robberies, which differs from the potential implications of violence on businesses activities, but is certainly relevant when considering duty of care concerns for the employees of businesses operating in Mexico.

In conclusion, security is a key concern for the Mexican government, for companies and businessmen, as well as for the Mexican population, but the meaning of “insecurity” varies by each stakeholder. Security conditions are an evolving and complex issue, and any analysis depends on how the topic is approached and analyzed to be able to produce a meaningful result.

— HOW CAN WE HELP

FTI Consulting’s Global Risk and Investigations Practice (“GRIP”) in Mexico provides accurate and definitive insight into locations where companies are operating or are contemplating operations. FTI Consulting produces comprehensive multidimensional risk assessments, which collect and analyze selected indicators to evaluate threats and vulnerabilities associated with conducting business in a specific city, state or region in Mexico, aiming to anticipate potential implications for our clients. Our unique and skilled team of multilingual professionals provides a multidisciplinary approach to critical investigations, combining functional expertise with a deep understanding of compliance policies and investigative processes. FTI Consulting’s team combines the skills and experiences of lawyers, forensic accountants, former government officials and regulators, anti-corruption investigators, computer forensic and enterprise data specialists. In the dynamic context of Mexico’s security concerns, threat assessments have become more important than ever, and FTI Consulting has the professionals to assist key stakeholders in protecting their people, property and assets.

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