Mexico: Shifting Tides Complicate the Landscape for Foreign Companies

The Mexican population is awake, politically active, and informed like never before.

Arturo Alemany, B2G Global Strategies

Within Mexico there is growing economic and political turmoil.

Mike Belcher, TMB Security

Increasing anti-American sentiment is exacerbating the already complex business environment for foreign companies in Mexico, adding to popular outcries against economic reforms and the government’s continued ineffectiveness in fighting corruption and violent crime. President Enrique Peña Nieto has enacted wide-ranging reforms in key industries — energy, communications, and finance — in an effort to enhance Mexico’s competitiveness, but growth has not increased significantly, and public support has dropped.

• Because of the drop in oil prices and production, Mexico’s GDP is down about 5 percent.

• Foreign investment has been effectively frozen.

• The value of the peso is now at its lowest level in decades.

• According to recent polling data, 80 percent of Mexicans expect an economic crisis and declining investment over the course of Donald Trump’s presidency.

What to Know

RANE experts agree that the Mexican population is politically engaged like never before. State by state, new social movements have been built up over the last three years that are keeping people more informed, vocal, and present on the streets.

• Arturo Alemany of B2G Global Strategies compares what is happening now in Mexico to the Arab Spring, in that universal access to social media and smart phones with cameras and texting capability has overtaken Mexico’s traditional centralized information flow that was controlled by the key political parties and the government.

• Even before the US presidential election, preceded by a campaign that featured strong anti-Mexico rhetoric around immigration and trade, a new nationalist movement was sweeping the Mexican countryside. Alemany notes that from the wealthiest and most educated to those in the lowest class, national pride is surging.

According to David Robillard of MultiLatin Advisors, security risks against US businesses have not systematically increased since two months ago, but there could be an uptick in the number of isolated “crimes of opportunity” against those perceived to be US citizens or facilities associated with the US.
Peña Nieto’s recent economic reforms—specifically price hikes for gasoline and water—have brought a lot of Mexicans out on the streets, and they aren’t going back. As RANE expert Mike Belcher of TMB Security puts it, “within Mexico there is just absolute turmoil.” Electronic media/social media is being effectively used to focus opposition more effectively, and keep it sustained.

- For example, in January, several hundred thousand people demonstrated in Baja—a comparatively wealthy region of Mexico that typically escapes political unrest—against the price hikes, ultimately forcing the governor to reverse the water price increase.

- Average citizens for the first time are educating themselves on the details around government bids and contracts, and are scrutinizing request for proposals (RFPs) that they have never seen before. Alemany notes that while previously allegations of corruption were vague, now they are very specific—average citizens are now familiar with what companies are offering to the government to win projects. And, he notes, the Mexican people are finding the corruption unforgivable.

- Alemany points out that Peña Nieto’s administration has made efforts to improve FCPA enforcement.

Peña Nieto’s priority for his remaining year in office will be trying to prevent a trade war or a war of words with Washington, and elections next summer for his successor (Mexico’s president is limited to one term) will be hotly contested.

- In mid-January, according to a Reforma poll, just 12 percent of Mexicans approved of Pena Nieto after the government raised gasoline prices.

- Belcher says that confrontations with Trump could help Peña Nieto’s sagging approval ratings. According to polls conducted by Buendia & Laredo in early February, 64 percent of Mexicans approved of Peña Nieto’s decision to cancel his meeting with Trump. However, his overall popularity continued to decline, as his disapproval rating rose to 74 percent, up from 66 percent when the poll was conducted last November.

Though RANE experts agree that the winner of the presidency probably will come from one of the country’s established parties, there is increasing concern that newer players will benefit from the current turmoil in Mexico by leveraging a populist message, which will present a real challenge. In particular, André Manuel López Obrador (frequently referred to as “AMLO” by Mexicans), Mexico’s top populist, built a solid reputation when he was mayor of Mexico City—a key post in Mexican politics.

- AMLO’s strident rhetoric, appeals to nationalism, and rejection of politics as usual are getting traction, as his approval numbers have been steadily improving. A recent poll showed 27 percent of Mexicans support his faction, more than any other party.

- Like Peña Nieto, AMLO has gained popularity in Mexico by railing against President Trump and his policies.

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Alemany notes that election of López Obrador could be viewed within Mexico as unfavorable since he is relatively inexperienced at the national level and could try to implement too many changes too soon and too fast.

The security situation in Mexico is still challenging, but it remains fairly stable, according to our experts. Overall crime in Mexico is largely holding steady with increases in violence the result of territorial wars between narcotraffickers, whom the government remains unable to control.

- In Mexico City and other big cities, crime is typical of any jurisdiction with a poor economy.
- There are still flare-ups of violence in Guerrero and Monterey. Tijuana has significantly lowered its overall crime rate, though deaths are still rising.
- From January 2016 to December 2016, the number of intentional homicides saw a slight uptick from 14.8 per 100,000 to 19.2 per 100,000 according to data published by the Executive Secretariat of the National Public Security System (SNSP).

What to Watch Out For

Since the beginning of his candidacy, President Trump’s remarks and tweets have rocked US-Mexico relations. Our experts agree that heightened anti-Americanism is unlikely to manifest as a systematic threat against US businesses, but will likely lead to an increase in “crimes of opportunity” against those perceived to be American or facilities seen as symbols of the US.

- On February 12, anti- Trump protests were held across 20 cities in Mexico. There were 20,000 protesters at the event in Mexico City according to local authorities. Protesters condemned Trump for his disrespect of Mexico and proposed border wall.
• **Belcher** notes that even though the spotlight has recently turned to the more acrimonious aspects of the US-Mexico relationship, everywhere you look – in businesses, educational exchanges, and cultural exchanges – the two countries are working together. The US and Mexico have built a strong relationship.

RANE experts do not foresee a scenario in which anti-American sentiment would catalyze a systematic anti-US business movement in Mexico. Mexican nationals have a sophisticated appreciation for the distinction between the media attention around the Trump administration and the pragmatic interests of the US business community.

• **Belcher** reports that he sees specifically anti-Trump and anti-administration sentiment rather than overall anti-US sentiment or any ill will toward US citizens.

• **Security risks against US businesses have not necessarily increased compared to two months ago**, according to David Robillard of MultiLatin Advisors. “We could see isolated cases of threats against American symbols depending on the rhetoric coming out of the White House, but it is unlikely to become a widespread issue.”

• **Alemany** comments that the current high level of street mobilization and political activism in Mexico has more to do with the Mexicans’ awareness of corruption and frustration with the gas price hike than it does with “anti-Americanism” per se.

However, there is a high risk that the general “anti-American” sentiment will lead to an increase in “crimes of opportunity.”

• According to the American Chamber/Mexico’s 2015-2016 Report on Business Security in Mexico, growth in situational crime was perceived to be the most significant factor contributing to a deteriorating security situation.

![Factors contributing to the deterioration of the security environment](image-url)

Source: American Chamber/Mexico’s 2015-2016 Report on Business Security
Belcher notes, “There is unlikely to be a spike in crimes against foreign businessmen, e.g. kidnapping for ransom, as a direct result of [current anti-American sentiment], but there will likely be more crimes of opportunity, where Mexicans are upset and take it out on those they perceive to be American, regardless of whether they may actually be Canadian, German, etc.”

Robillard cautions that US-branded gas stations may become a specific target of general ill will towards the US. The convergence of Mexicans’ frustration around the almost 25 percent increase in gas prices, the result of Pena Nieto’s efforts to liberalize the Mexican energy sector, and hostility to President Trump’s policies and rhetoric toward Mexico make US-branded gas stations a particular target.

Our experts agree that security risks associated with the ongoing violent turf wars between Mexico’s drug traffickers remain a serious concern, and the Mexican government remains unable to effectively manage it.

Due to the power vacuum caused by Joaquin “El Chapo” Guzman’s imprisonment in the US, territorial conflict between the drug traffickers is unlikely to subside anytime soon.

Robillard notes that, beyond infighting within the Sinaloa cartel—with the potential balkanization of northwestern and central Mexico—continued intergroup fighting between the different cartels will probably expand.

Our experts concur that the financial risk to US businesses inside of Mexico will be relatively limited. US businesses along the border inside of the US may, however, be negatively impacted.

Mexican boycotts against McDonalds and Starbucks recently made the news, but Belcher points out that there has been an active effort by Mexican TV and press to inform Mexicans that these are franchises owned and operated by Mexicans, employing Mexicans so the damage is likely to be limited.

“The US’s local economy will take a hit as Mexicans living close to the border start buying in Mexico instead of crossing the border for their purchases,” Alemany notes. Popular tourist destinations – such as New York City, Florida, and California – may also see a drop in tourism money as Mexicans more broadly curtail their travel to the US.

What to Consider

The best way US businesses can mitigate risks in Mexico is to ensure that visitors, expats, and local staff maintain strong situational awareness and take extra precautions against potential “crimes of opportunity.”

• The best security investment businesses can make is training new executives, managers, and employees of all levels in basic common sense and “street smarts,” Robillard says. Pre-arrival briefings and other situational awareness training tailored to each city are critical.
• According to the American Chamber/Mexico's survey, companies operating in Mexico have instituted travel protocols, hired safe transportation services (service evaluation, trained driver, low profile vehicle), conducted hotel evaluations, established a 24/7 emergency phone line, restricted travel within Mexico, and monitor and track employees during business trips.

• **Belcher** urges visitors to avoid discussing politics with locals. If the discussion is turning towards that direction, steer it back towards soccer or American baseball.

• **Robillard** emphasizes that it is especially important for US businesses to focus on the protection of their Mexican executives who are more likely to be targeted for kidnappings than foreign executives.

**Even given the unsettled environment in Mexico, our experts note that there are new opportunities for businesses in various sectors as foreign competitors – such as businesses from Canada, France, Germany, and Japan – will seek to substitute US imports and services.**

• **Alemany** points out that in the short term, “contrarian investment” – taking advantage of any exits from the market – could be a huge opportunity.

• Mexico has a great pool of skilled and educated workers, and the rapid depreciation of the Mexican peso means that exports will be cheaper, though inflation remains a risk.

• Especially in manufacturing, foreign businesses will be eager to fill in any gap that the departure of US businesses might create; for example, French companies in particular are interested in the manufacturing of plastic medical and hospital products in Mexico.

**ABOUT THE EXPERTS**

**Arturo Alemany, B2G Global Strategies**

*Arturo Alemany* is a director at B2G Global Strategies, an international investigations and security consulting company. He has more than 25 years experience as an international business strategist and consultant for Fortune 500 companies throughout the United States, Europe and Latin America. He has consulted in the areas of mergers and acquisitions, corporate development and political consulting, and has specialized in several sectors of private industry, including telecommunications, transportation, gaming, cable television and hospitality.

**Mike Belcher, TMB Security LLC**

*Mike Belcher* is founder and managing director at TMB Security LLC. He has over 40 years of experience growing up, living and working in overseas locations (Latin America, Europe & Middle East). He has 25 years of experience as an operations officer with the Central Intelligence Agency, 10 years with Goldman Sachs & Co., and 6 years as the founder and owner of TMB Security, LLC, originally founded in Manhattan and now located in Palm Beach County, Florida. TMB has associates located in Mexico, Brazil & Argentina. He is conversationally fluent in Spanish and Portuguese.

**David Robillard, MultiLatin Advisors**

*David Robillard* is founder and president of MultiLatin Advisors. He has advised boards of directors and senior managers on business partnering, corporate investigations and competitive risks in a range of industries including mining, infrastructure and manufacturing for over 15 years. Prior to founding MultiLat, he held several senior management positions with Kroll Associates, an international risk consultancy, where he was Country Manager in Spain and Mexico, as well as Deputy Regional Managing Director for Latin America and the Caribbean.

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