Mexico – Chaos or Opportunity

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At about 6:30 AM on June 26, Omar García Harfuch, the chief of police for Mexico City was ambushed and shot three times on the Paseo de la Reforma, a major boulevard. Two of his bodyguards were killed as well as a woman bystander. Grenades were used as well as 50 caliber weapons. Yet there has been almost no mention in the press here in the US, even here in New Mexico where we have a common border and enormous business and cultural ties.

Imagine what would happen if one of our leading law enforcement officials was ambushed by some 28 gang members in broad daylight on a major street in Washington DC. There would be an uproar heard around the world.

Mexico is at a tipping point between chaos and opportunity and the resolution of this ambush will have much to do with the way the country goes.

Mexico's opportunity starts with China. China's new national security law restricting Hong Kong's political freedoms, the brutal treatment of Uighur minorities, and ongoing trade violations have drawn bi-partisan condemnation from Congress. This is affecting the many American companies that have set up subsidiaries in China as a way to access its lower labor costs. Buy American is a popular slogan here but the reality is that the major concern of most American consumers is cost; whether they like it or not, American companies have had to outsource much of their manufacturing for that reason. China has been the major beneficiary.

For US companies now looking for other lower wage countries, Mexico is the obvious answer. It is close geographically, the language barriers are much less and we have more in common culturally. In addition, Mexico already has world class manufacturing locales like Aguascalientes with its thriving automobile industry.

Over forty percent of New Mexico's exports go to Mexico, making it our state's largest market by far.

This investment shift from China to Mexico could result in much needed high skilled jobs that would pay far more than the miserly Mexican minimum wage of less than $6 per day or the low pay at maquilas on the border.

Consider four obstacles, however - the security environment, support from the Mexican government for the concept of foreign investment, the implementation of the new United States-Mexico-Canada Agreement (USMCA), and a sense that Mexico is a country that takes care of its people.

Security

The attack on Omar García Harfuch has made security the number one issue. Look at just one statistic – homicides. In the first five months of 2020, there were 15,016 homicides in Mexico according to government sources. This compares to 16,214 homicides in the United States in all of 2018. If this trend continues, there will be roughly twice as many homicides per year in Mexico as the United States. Since the US is two and a half times larger in terms of population than Mexico, it means that Mexico's per capita homicide is five times higher than ours.

In a recent report by the Citizens' Council for Public Security and Criminal Justice, five of the world's six most dangerous municipalities were found to be in Mexico – Tijuana, Acapulco, Ciudad Victoria, Ciudad Juárez, and Irapuato.

You can dismiss some of these homicides as just drug dealers killing other drug dealers but the brazen attack on Omar García Harfuch is a direct attack on Mexico's government. It is also a shocker because Mexico City has been relatively safe and because Mexico City is where most of the executives from foreign companies live.

Mexico's President, Andrés Manuel López Obrador (better known as AMLO) has to get this under control.

Government support for foreign investment.

Mexico's previous president, Enrique Peña Nieto was able to pass legislation allowing for foreign investment in Mexico's poorly run and money losing national oil company, PEMEX, a smart idea that could have attracted new investment and more modern technology and expertise. AMLO has rejected this, raising questions about how he would welcome other foreign investment.

The United States-Mexico-Canada Agreement.

This new agreement replacing NAFTA went into effect on July 1 but the hard part – the working out of many details – lies ahead. For example, will Mexico implement the called-for improvements to its labor system, including allowing labor unions to advocate for better wages and working conditions? Companies thinking of investing in Mexico will need to know exactly what the rules are in terms of their workers.

Taking Care of its Citizens.

Last, the American public is quick to attack US companies that appear to exploit workers in other countries. The low pay at maquilas in border towns like Juárez, AMLOs' extraordinarily weak reaction to the coronavirus, and his lack of commitment to eradicating poverty – these are all flash points that could generate a reaction against more US investment in Mexico.

While the Omar García Harfuch shooting has never really come into focus here in the US, it is certainly on the minds of those who are invested in or thinking of investing in Mexico. How it is resolved and how AMLO either gets a grip on the violence in his country or fails to do so will have a profound impact on this new economic opportunity. Let's hope for the best.

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