

Just How Risky has Mexico Become as Sourcing Location?

Violence, Fear, Gangs Exploding Still more in Border Towns, as One Report Warns of Possible Government Collapse; Conditions Much better Further Inland; US to Take more Direct Role in Providing Help

SCDigest Editorial Staff

As energy prices were soaring over the past few years, an increasing number of US companies were relooking at Mexico as a potential sourcing location over Asian countries much more distant in miles and time.

But so called "near shoring" strategies, which can enable companies to get the benefits of a low wage environment yet operate in many respects like a domestic supply chain operation, seem to run into many roadblocks in Mexico. Infrastructure is poor. There isn't generally much of a supply base. Corruption and crime are prevalent.

It is the crime and corruption issue that has once again taken center stage, however, as the violence level spikes even higher in part in reaction to the government trying to gain some measure of control. Meanwhile, the US is committing to offering more resources and a more tightly linked effort with Mexican officials to address the challenges.

Report Says Government Collapse is Possible

A report in January by the US Joint Forces Command caught some by surprise with its warnings about political instability in Mexico. The 2008 Joint Operating Environment report said that: "In terms of worst-case scenarios for the Joint Force and indeed the world, two large and important states bear consideration for a rapid and sudden collapse: Pakistan and Mexico."

While the report said of the two a collapse is Mexico

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"may seem less likely," it went on to say that "the government, its politicians, police, and judicial infrastructure are all under sustained assault and pressure by criminal gangs and drug cartels. How that internal conflict turns out over the next several years will have a major impact on the stability of the Mexican state."

No one seems to deny that the violence and fear in Mexico right now are very high, and that government corruption is a real problem, some of it stemming from greed, some of it from self-protection.

Nearly 8000 Mexicans have been murdered there by criminal gangs, mostly drug related, over the past two years with a dramatic jump of 117 percent last year over 2007. In the border city of Juarez, across the Rio Grande from El Paso, TX, more than 80 murders were clocked in the first three weeks of 2009. On one January day alone in Juarez:

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- Authorities recovered the decapitated head of a police chief from a town just downriver. Three other heads stuffed into a cooler were left on the steps of a city hall in a neighboring village.
- Two state police detectives were shot to death in their patrol truck in a downtown Juarez parking lot.
- A Juarez traffic police commander was kidnapped by unknown assailants.

A city built largely on trade with the US, Juarez is now home to some 500 street gangs that count thousands of young men as members, according to police there. As the global economy sinks, export volumes and potential decrease, making the criminal life still more attractive, especially when compared to the \$50 or less per week factory workers in places like Juarez can earn.

So is the government itself really at risk? Maybe so.

"The drug cartels have penetrated every layer of the institution of the state in Mexico from the municipal through the state and into the federal levels. Thus, the drug war itself--the war between the various fighting cartels--is something that's replicated internally within the state," says reporter **John Gibler**, author of the recent book **Mexico Unconquered: Chronicles of Power and Revolt**. "The warring cartels that are fighting out on the street are also fighting within the structure of the state. Hence you have the constant back-and-forth assassinations of police and military officers, civilians, and people involved in the various anti-drug agencies. One gang will find the "Deep Throat" of another gang inside a given institution and then have them killed," he says.

US Ramping Up Support

In the face of these incredible challenges, the



US this week said it is ramping up support for the Mexican state across several levels. Though short on specifics, concerns over regional stability on one hand and terrorism on the other are clearly upping the stakes for the US.

Officials say they foresee an enhanced U.S. role in the battle with powerful cartels and gangs, including joint operations that could involve use of private American contractors or U.S. military and intelligence personnel.

"Everything is on the table," one Mexican official said, including "joint operations."

Is Mexican Sourcing a Viable Strategy Right Now?

Many experts note that most of the violence and problems are centered on the cities which border the US. While these locations obviously have the greatest advantages in terms of logistics, moving further inland into Mexico is a night and day difference, for the most part, when it comes to violence, the rule of law, and something of a modern political infrastructure.

"Companies are continuing to operate, look, and expand in Mexico," says **Gene Tyndall** of Tompkins Associates and an SCDigest Contributing Editor. "The drug-related violence is not heavy in some business locales, such as Monterrey and Cuernovaca, and Mexico City is still relatively safe if you follow the guidelines."

Still, it is likely many companies will decide to sit tight before moving into Mexico for awhile to see if the federal government there, with US help, can bring these almost lawless regions back under control.