

Mexican Strategic Landscape

Monthly Report - July 2023

THE INSTITUTE

FOR STRATEGY AND DEVELOPMENT RESEARCH



What is The Mexican Strategic Landscape Report?

A monthly publication by the *Institute for Strategy and Development Research (ISDR)*, a think tank dedicated to the analysis and the dissemination of information in key topics which address Mexico's problems and structural challenges. This document provides insights from the six different regions that make up the country.

Regions of Mexico



Trends to watch in Mexico

01 / It is time to address the obvious: there is terrorism in Mexico.

During the last month, different parts of the country have witnessed an evolution in the tactics used by criminal groups in which they take hostages, plant land mines, use car bombs and launch explosives at buildings. Although the use of these tactics is not new, what is unusual is their widespread use. Although the concept of “terrorism” is certainly avoided by the security establishment in Mexico, the Country’s Criminal Code clearly establishes that terrorist acts are those that produce alarm, fear, or emotional distress among the population, for the sole purpose of pressing the Authorities’ stance on a given issue. Besides the political implications -both at the national and international levels- of using the word “terrorism”, perhaps the time has come to seriously discuss the matter.

02 / Violence breaks out in Chiapas.

The state of Chiapas -Southern Mexico- is going through a crisis of violence, fueled by different causes and the participation of different types of actors. Among those actors are organized crime groups, paramilitary organizations and more recently the incursion of criminal syndicates from Guatemala. Although the phenomenon is not new in Chiapas, the tactics used and the confluence of various actors have caused an unusual uptick of violence. Without specific strategies to counter different types of actors, the security situation is unlikely to improve in the short term. Cooperation with Guatemala must also be strengthened to improve security on the border.

03 / Climate Change and National Security.

The latest heat wave that targeted Mexico should be regarded as a wakeup call in terms of climate change and National Security. Aside from the terrible death of more than 100 people, extreme temperatures directly affected the Country’s electric grid, causing hundreds of blackouts that negatively impacted both households and the industry. On the other hand, since National Security relates to Food Security, it is still unknown how climate change will impact the already-battled Mexican agricultural sector.

Mexico and the Global Stage

Chinese spy base in Cuba.

In recent weeks, different media outlets have reported on the existence of a Chinese espionage base in Cuba. The base is located near the town of Bejucal and it is believed to be designed as a Signals Intelligence (SIGINT) hub targeting the US’ East Coast. Reports suggest that Chinese high-tech giants such as Huawei might be somehow involved in the operation of the base. The case is reminiscent of the Lourdes base, operated by the Soviets in Cuba during the Cold War, highlighting the geostrategic importance of the Island.

Northwestern

Regional Overview

01 ——— Air connectivity grows in the Northwestern region.

The International Air Transport Association (IATA) revealed that the number of domestic passengers grew by 21% in Mexico compared to the levels registered in 2019 prior to the start of the pandemic. In the case of the Northwestern region, the states of Sonora and Baja California stand out in 2023 for the announcement of new air routes to cities such as Mexicali, Ciudad Obregon, Cajeme and Hermosillo. The foreign investment boom and the tourism sector have contributed to boost air connectivity. However, the air travel sector faces some challenges, such as limited airport infrastructure and a high airport utilization fee (TUA), which could affect this growth trend.

02 ——— Instability in the mining sector of Chihuahua and Sonora.

The mining sector in Chihuahua and Sonora is going through a period of uncertainty and instability due to the approved mining reform, delays in the granting of government permits and the emergence of mining conflicts. In the case of Chihuahua, there are at least 5 halted mining projects because of government permits delays. In Sonora, companies such as Magna Gold and Argonaut Gold have had to cut staff because the useful life of their projects has come to an end. Additionally, companies face labor conflicts for unpaid Employee Profit Sharing (PTU) and the struggle between unions for the representation of workers, which generates an adverse climate for mining companies.

Key Actors

Mining unions in the region.

Some unions that have presence in this region are the National Mining and Metallurgical Union – FRENTE whose General Secretary is Carlos Pavon; the National Union of Mining, Metallurgical and Steel Workers of the Mexican Republic, whose General Secretary is Napoleon Gomez Urrutia; and the National Union of Workers of the Metallurgical Mining Industry (CTM), whose General Secretary is Javier Villarreal Gamez.

Northeastern

Regional Overview

01 ——— European ambassadors put an eye on Tamaulipas.

During June, 19 ambassadors from the European Union visited the state to explore commercial opportunities related to the energy sector. In that regard, the ambassadors put special focus on the Port of Altamira, on the Northern Gulf of Mexico, highlighting its potential as a logistics hub connecting Mexico, the US' East Coast and Europe. Additionally, although the news went almost unnoticed, the Woodside oil company announced a historic investment of USD 7.2B in the Trion offshore field.

02 ——— Nuevo Leon promotes farm technification.

After suffering one of the most serious water crisis in 2022, Nuevo Leon launched various strategies and projects to increase water supply such as the modernization of farmlands. Although the industries have been targeted by the media as the main cause of the water shortage, information revealed by the state's water administration exposes that farming consumes around 70% of the water in the state and has an enormous waste ratio due to the lack of technology. The State Government has since launched a project to modernize farmlands, and the Montemorelos irrigation district, (one of the main producers of Lemon and Orange in the country) is a pioneer participant with an investment of more than USD \$5 million.

Key Actors

Port of Altamira in Tamaulipas.

The Port of Altamira is located in a strategic region due to its proximity to the area known as the "Cinturon Plegado Perdido", where one of the country's most important oil reserves are located. Also, the port provides commercial services mainly to the states of Nuevo Leon, Coahuila and San Luis Potosi, which are rapidly becoming an industrial workhorse amid the Country's so-called "nearshoring moment".

Western-Bajío

Regional Overview

01 ——— Queretaro stands out nationwide in competitiveness and rule of law.

Some national and international studies position Queretaro as one of the most dynamic and attractive states in the country. In terms of competitiveness, Queretaro occupies the second position nationwide, surpassing Nuevo Leon according to data from the latest Mexican Institute for Competitiveness (IMCO) report. Regarding the rule of law, for the second consecutive year, Queretaro leads the ranking of the index carried out by the World Justice Project for its work to combat corruption and criminal justice. Despite the good indicators presented by the State on issues such as competitiveness, rule of law and security, it has not been able to fully exploit its economic potential or consolidate its brand abroad. Therefore, it will be important to articulate new strategies to attract more investment.

02 ——— Asian investment boom in the automotive industry in Guanajuato.

After the work tour carried out by the Governor of Guanajuato to Japan and South Korea, he announced the arrival of new investments in the automotive sector. Among the companies are Mitsu-High-tec, a manufacturer that creates high quality lead frames, motor cores and machine tools, and the Yazaki company dedicated to the manufacture of components for the automotive industry. The Okita Iron Works company dedicated to the manufacture of metal parts and components also announced the expansion of its operations in the state. The presence of automakers such as: Toyota, Honda and Mazda have sparked an investment boom from supplier companies in the state, which has become the largest producer of light vehicles in the country.

Key Actors

Rule of Law Index by the World Justice Project.

Within the 2022-2023 edition, Queretaro leads in the following indicators: limits to government power that measures institutional counterweights, absence of corruption including bribery and misappropriation of resources, fundamental rights and their effective protection, and criminal justice that evaluates its effectiveness.

Central

Regional Overview

01 ——— **Illegal logging grows in the region.**

Illegal logging is a growing problem in Mexico City and the state of Morelos. Loggers protected by criminal groups and real estate developments have razed thousands of hectares of forest with impunity. Among the places affected is the ecological park Zempoala-La Bufa, which recently caused environmental activists to block the Mexico-Toluca highway to stop illegal logging and demand the presence of the authorities. In Mexico City, the Tlalpan and Milpa Alta municipalities have also denounced the devastation of thousands of hectares in the last years. In addition to the loss of biodiversity, illegal logging has become a security problem, caused by the incursion of criminal groups into the business of illegal timber sales.

02 ——— **Cargo theft on the Mexico-Puebla highway.**

The Mexico-Puebla highway is considered one of the riskiest for cargo and cars due to the high incidence of thefts. The rise in thefts led to a protest by the transport association (AMOTAC) in June to demand greater security from the authorities. Despite the economic losses generated by this crime and the identification of the modus operandi of the criminal cells in the area, state and federal authorities have not been able to design an effective strategy to combat it.

Key Actors

Cargo theft in Puebla.

Data from the National Public Security System (SNSP) reveals that cargo theft in the state of Puebla has increased 71% during the first half of 2023 compared to the same period last year. In the case of the municipalities of San Martin de Texmelucan and Tlahuapan, they have increased 60% and 1128% respectively during the first semester of 2023 compared to the same period last year.

Southern

Regional Overview

01 ——— **Interoceanic Corridor runs between uncertainty and limitations.**

Despite the efforts made by the Federal Government to attract national and foreign private investment to settle in the industrial parks that are part of the Interoceanic Corridor, the project continues to generate uncertainty and faces some limitations. Among the limitations that the project has faced, are the expansion projects for the ports of Salina Cruz and Coatzacoalcos, which have been smaller than those originally planned. Regarding the installation of companies in the area, although the government has generated economic incentives, there is uncertainty about its viability, due to the lack of qualified labor, limited infrastructure, and a history of social conflicts in the area.

02 ——— **Oaxaca-Costa highway could be inaugurated in 2023**

After more than 10 years of having started its construction, the highway that will connect the city of Oaxaca with the municipalities of Huatulco and Puerto Escondido on the coast could be inaugurated in 2023. During June, the Government of Oaxaca announced that it had reached an agreement with the inhabitants of San Vicente Coatlán to continue with the construction work on the highway. In recent years, the project has suffered significant delays due to financial problems of the construction companies and the emergence of social conflicts. The inauguration of the highway will improve the connectivity and promote tourism development in the region.

Key Actors

San Sebastian Coatlan, Oaxaca.

Inhabitants of the municipality of San Sebastian Coatlan have opposed for years the construction of the highway that will connect the city of Oaxaca with the coast. Members of the community have blocked the highway as a measure to pressure the state and federal governments to comply with various demands. An official from the Oaxaca government revealed that the community has received more than 27 million dollars in the last 15 years, has not yet been able to resolve the conflict.

Yucatan Peninsula

Regional Overview

01 ——— Strategic projects in Yucatan.

In recent years, Yucatan has become one of the most attractive states to invest in the country. Among the factors that have triggered its growth are the low rates of violence, the national and international promotion that the Governor has carried out to attract companies, and the promotion of strategic projects such as the construction of the Progreso bypass, that will benefit cargo transportation, and the expansion of the Progreso port, which will detonate the tourism and logistics potential of Yucatan. Although the state will hold elections in 2024, it will be important that strategic projects have continuity, to provide certainty and boost economic growth.

02 ——— Expansion of the Mayakan gas pipeline in Campeche

The Governor of Campeche announced that in 2023 the expansion of the Mayakan pipeline will begin, which will increase the supply of natural gas to the Yucatán peninsula. For decades, the region's natural gas deficit has limited its growth. Although President Lopez Obrador supports this project, it faces some risks such as: federal elections in 2024, a tense relationship between the Federal electricity commission (CFE) and private companies and delays in complementary works such as the construction of the Southeast Gateway marine gas pipeline and the connection between the city of Paraiso in Tabasco and the Pemex processing plant “Cactus” in Chiapas.

Key Actors

Expansion and Modernization of the Progreso Port.

This long-overdue project, which includes the expansion of the navigation canal, is aimed at making Progreso the main logistics hub for the Yucatán Peninsula in the coming years.

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