

Mexican Strategic Landscape

Monthly Report - October 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 / Tesla will install a gigafactory in Nuevo Leon.

After several months of negotiation and speculation, Elon Musk -**Tesla's CEO**- confirmed during the Investor's Day the installation of the first gigafactory in Latin America, which will be in the municipality of Santa Catarina, within the Monterrey Metropolitan Area in the state of Nuevo Leon. The investment is estimated at \$5,000 million USD in the first years, **which itself means a historic investment in the country**. Despite the unwillingness shown by the President, the installation of Tesla in Nuevo León **strengthens the North American integration process and places the state in a strategic position on the global stage**.

02 / Top US priority: stop fentanyl coming in from Mexico.

The United States Government made it clear that one of its priorities is to combat fentanyl trafficking and the Transnational Criminal Organizations behind it. In different appearances, President Joe Biden, Anne Milgram -DEA Director- and the Attorney General Merrick Garland showed their concern about the fentanyl crisis that is plaguing the United States and asked the Mexican government to reinforce its fight against the Sinaloa Cartel and Jalisco Cartel New Generation, dominant groups in the global fentanyl supply chain. Following the statements, the Mexican Army seized in Culiacan, Sinaloa one of the largest synthetic drug laboratories so far in the past 5 years. Although the seizure definitively shows some progress, **Mexico needs to strengthen port controls that prevent the arrival of chemical precursors from Asia and disclose the results of its strategy against fentanyl to confirm its position as a reliable partner to the United States**.

03 / The war for Mexico's water.

During February, the Second National Assembly for Water and Life was held in the municipality of Amealco in the state of Queretaro, where 525 participants from 125 groups of 18 states of Mexico and 6 different countries, such as Colombia, Italy, Canada, Puerto Rico, Argentina, and Chile attended. One of the main objectives of the meeting was the articulation of resistance movements in defense of water against national and multinational companies. Although the fight for water resources in Mexico is hardly new, it has become a critical issue on the public agenda in recent years. **The narrative that shows a competitive vision between economic development and environmental sustainability has been strengthened and worsened with the negligence of different governments**, which has generated an adverse climate for the investments and operations of many companies in the country.

Mexico and the Global Stage

Mexico as a global actor

Although Mexico's foreign policy has suffered several ups and downs in recent years, one of its strongest and most notable pillars has been the support to other nations in situations of natural disasters. An example of this was the aid that Mexico recently provided to countries such as Turkey, Syria and Chile that were affected by devastating earthquakes and wildfires. **The capabilities in terms of "Humanitarian and Disaster Relief Operations" can be further exploited to reposition Mexico as a responsible actor**.

Northwestern

Regional Overview

01 ——— **New gas pipeline project between Sonora and Baja California.**

The Federal Electricity Commission (CFE), **Carlos Slim's Carso Energy** and the American company Sempra announced a preliminary agreement to build a gas pipeline between Sonora and Baja California that would be approximately 450 kilometers long. The goal of the pipeline would be to increase CFE's capacity to satisfy the demand in those states. The announcement follows the increase in the price of natural gas registered in January by Sempra, which strongly affected many industries in the region. Although the project is in a preliminary state and feasibility studies still need to be carried out, if implemented, it would help to consolidate plans to export gas to the United States.

02 ——— **Structure of the Sinaloa Cartel in the region is fracturing.**

During February, different groups within the Sinaloa Cartel were affected by the operations carried out by the Armed Forces. Stands out the arrest of Jose Guadalupe Tapia, one of the main operators of Mayo Zambada and the arrest of 3 members of the faction led by Aureliano Guzmán Loera "El Guano", brother of "El Chapo" former Sinaloa Cartel leader. There were also blows against the logistical operation of the cartel, such as the seizure of a fentanyl lab in Culiacan and the blocking of 6 accounts by the USA Government to chemical precursors suppliers. These actions take place within the growing pressure from the US on Mexico to stop fentanyl trafficking and the possibility that the US Congress designates the Mexican cartels as terrorists' groups, which would have serious repercussions on the bilateral relationship.

Key Actors

Sinaloa Cartel

After the capture of "El Chapo Guzmán" and his son Ovidio Guzmán, the fractures within the Cartel have intensified and each faction operates more independently. Five factions have been identified: Mayo Zambada group, historical leader of the organization and his son Ismael Zambada Sicarios; Chapitos group composed of the brothers Ivan Archivaldo, Alfredo and Joaquin Guzman; Aureliano Guzman group known as "El Guano" brother of "El Chapo" and other group lead by Rafael Caro Quintero family members.

Northeastern

Regional Overview

01 ——— **New BMW Plant in San Luis Potosi.**

San Luis Potosi continues to consolidate as one of the most attractive states for the automotive industry. The German assembly company BMW recently announced that it will expand its plant in this state to produce electric cars and batteries. The investment rises to \$800 million Euros and positions Germany as the second country with the highest foreign direct investment in the state. The arrival of Tesla in Nuevo Leon, General Motors in Coahuila and BMW in San Luis Potosi position the region as one of the most important in the production of electric vehicles in the country and illustrate the changes in consumption patterns that have occurred mainly in European and American markets. **It will be up to Mexico to seize the strategic opportunity that these global patterns present.**

02 ——— **Gulf Cartel factions strengthen in Tamaulipas.**

During the last month, ambushes against security forces and shootings in various municipalities in Tamaulipas were registered. Four factions of the Gulf Cartel (Grupo Escorpiones, Alacranes, Espartanos and Ciclonas) continue to operate strongly in the state despite not having a unified command. Although in recent years the territorial control of this group has been shortening, they maintain a presence in the cities of Aldama, Ciudad Victoria and Matamoros. This last city has strategic value due to its proximity to Brownsville, Texas. **The strengthening of these factions -and the strife among them for supremacy- will definitively lead to more violence in the zone.**

Key Actors

Production of electric cars in the region

The General Motors company announced that from 2024 electric cars will be produced at its plant located in the city of Ramos Arizpe in Coahuila. In Nuevo Leon, Tesla company will build the largest electric car factory in the world, and it is expected that it will be operating by 2024. In San Luis Potosí, the plant that BMW will build will be strategic to achieve the company's goal of reaching 50% of electric cars models sold for its worldwide sales by the end of 2030.

Western-Bajío

Regional Overview

01 ——— Reappearance of self-defense groups in Michoacan.

The Tierra Caliente region, epicenter of the rise of self-defense groups in Michoacan **more than a decade ago**, continues to suffer harassment and extortion by organized crime groups. Because of this, one of the self-defense founders, Hipolito Mora, mentioned in a recent interview that if the authorities did not do their job, the groups would reappear in the state. Currently the area is disputed by groups such as the Jalisco Cartel New Generation, “Carteles Unidos” and some fragments of other organizations as “La Familia Michoacana” who seek to obtain profits from the main economic activities in the region, specially by extortion agriculture, livestock, and mining sectors.

02 ——— Zacatecas authorities overwhelmed by insecurity.

During February, more than 15,000 people, including students and non-governmental organizations, demonstrated peacefully against insecurity. The event was organized by the **Autonomous University of Zacatecas**. In addition to the increase in homicides, kidnappings and extortions, the insecurity conditions have caused the cancellation of city fairs in the municipalities of Jerez and Pinos. Due to this, the Governor of Zacatecas presented a new security strategy that will have a budget of more than 800 million pesos without having carried out a critical evaluation of the results of the previous security plan called Zacatecas II. These evaluations allow the government to adapt objectives and assign resources to initiatives whose success has already tested.

Key Actors

Zacatecas II Security Plan

In November 2021, Zacatecas II Security Plan was announced, which involved the support of the Mexican Army and the National Guard and the training of local police corporations. Although from 2021 to 2022 homicides decreased by 13.8%, Zacatecas continues to be among the top 10 nationwide in homicide rates and the metropolitan area is considered the 4th most dangerous city in the world according to the ranking carried out by the Citizen Council for Public Security and Criminal Justice.

Central

Regional Overview

01 ——— Elections and criminal rearrangements in the State of Mexico.

The upcoming elections in the State of Mexico that will take place on June 4, **have increased the risk of violence, and accelerated criminal rearrangements in the state.** A study made by the Secretary of Public Security revealed that there are 33 municipalities with high and medium risk of presenting violence during the election period. In addition to the risk of violence, election periods are a determining factor in the rearrangement of criminal organizations. Currently, the authorities have identified the operation of at least 8 criminal groups in the state and recently alerted about the possible incursion of the “Los Ratonés group” linked to Ovidio Guzmán on the border with the state of Morelos, which exemplify these dynamics.

02 ——— Extortion in Guerrero unstoppable.

The cities of Zihuatanejo and Chilpancingo in the state of Guerrero have been affected by constant extortion by criminal organizations. In Zihuatanejo, 3 gas companies had to close due to constant extortion, for which the Armed Forces had to intervene so that the companies could resume their operations. In Chilpancingo, the criminal group “Los Tlacos” set fire to various businesses that refused to pay extortion fee. The fire left 2 people dead and at least 9 businesses affected. Without an adequate strategy to combat these crimes, the income of thousands of families is at risk and the economic development of the region is compromised.

Key Actors

Cities at risk due to elections in the State of Mexico

Within the risk map made by the Secretary of Public Security, 33 cities were identified at risk, 17 of them present high risk and 16 medium risks. Among the cities with the highest risk are Chalco, Cuautitlán Izcalli, Ecatepec, Nezahualcóyotl, Los Reyes la Paz and Texcoco.

Southern

Regional Overview

01 ——— The state of Chiapas: strategic area for drug trafficking.

Due to its geographical location and proximity to the Guatemalan border, the state of Chiapas has become strategic for drug trafficking coming from Central and South America, which makes it a disputed place by Transnational Criminal Organizations. During February, **the Mexican Navy, with the support of the US Coast Guard**, managed to stop 3 vessels off the coast of Chiapas that were carrying more than 2 tons of cocaine. In other event, the authorities stop a plane that was unloading drug packages in the municipality of Ocosingo. The increase in seizures could be related to the progress that the Sinaloa Cartel has had in the state, which has managed to subdue local cells that controlled that region.

02 ——— Investments in wind energy at risk due to communities' opposition

President Lopez Obrador recently announced that the United States could finance the construction of 4 wind farms that are part of the Trans-Isthmic Corridor project. **Although the promotion of renewable energies is a key component of US' priorities**, the materialization of the project in Mexico faces an enormous challenge: communities' opposition. In the case of Oaxaca, one of the states covered by the Trans-Isthmic Corridor, the communities have opposed not only to the installation of new wind farms in Union Hidalgo municipality, but they have also opposed the modernization of the railway in the municipality of Matias Romero. These situations have discouraged companies from investing in the area, which jeopardizes the viability of the project in the future.

Key Actors

Case of Piedra Larga wind farm in Union Hidalgo, Oaxaca

After several years of opposition, the community of Union Hidalgo, Oaxaca achieved last November that the Unitary Agrarian Court in Oaxaca declared the nullity of the land lease contracts where Piedra Larga wind farm is located. With this verdict, the wind farm owned by the company Demex subsidiary of the Spanish firm Renovalia Energy, must return part of the land occupied to build the Piedra Larga wind farm.

Yucatan Peninsula

Regional Overview

01 ——— Closure of Aeromar affects air connectivity in the region.

After more than 35 years of operations, **the Mexican airline Aeromar announced on February 15 the definitive closure of its operations due to financial problems.** This airline stood out for covering 21 national destinations, including an important part of local demand. At the regional level, the company had flights to cities like Chetumal, Cancun, Cozumel, and Merida, for which the closure of its operations affects the connectivity of the Peninsula.

02 ——— Arsenal seized and camp destroyed in Quintana Roo

The robbery of a Rural Police patrol in Quintana Roo led to a land and air operation that ended with the rescue of 4 kidnapped people and the seizure of different firearms such as a .50 caliber Barrett and various grenades in an area near the municipality of Othon P. Blanco that was used as a camp by a criminal organization. In recent years, the trafficking of arms that enter illegally through the southern border has increased, causing a greater availability of weapons in **the entity that is currently disputed by at least 5 different criminal groups.** This has led to an increase in violence.

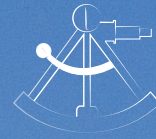
Key Actors

Criminal groups in Quintana Roo

Among the criminal groups that have been identified operating in Quintana Roo are the Sinaloa Cartel, the Caborca Cartel, Jalisco Cartel New Generation, the Independent Cartel, and “Los Pelones Group”.

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