

CREATING MARKETS IN CHIAPAS, MEXICO



OPPORTUNITIES

The Deep Dives explored three critical sectors for Chiapas: agro-industry, forestry, and automotive. Private investment in these sectors could enable Chiapas to accelerate economic growth, reduce development gaps, diversify its economy, and enter into GVCs.

AGRO-INDUSTRY

In 2021, Chiapas was among the 10 largest producers of **banana** and **coffee** (1st); **cocoa** (2nd); **papaya** (3rd); **mango** (4th); **sugarcane**, **pear**, and **sesame** (5th); **peach**, **beans**, and **soy** (6th); **apple** (7th); and **pineapple**, **watermelon**, **corn**, and **avocado** (8th) in Mexico.

The state has potential to increase its fresh agriproducts production and develop higher value-added processed products. Establishing **agro-industry parks** could help harness this opportunity. **Some PPPs** are already underway whose consolidation will have a demonstrative effect. Additionally, **anchor**

firms are establishing in the Soconusco region to harness its productive potential and closeness to Central American markets.

Chiapas also has potential to expand its production of **meat** (6th, 7th, and 8th largest producer of poultry, beef, and pork, respectively, in Mexico for 2021) and **fish** (1st, 3rd, and 10th largest producer of mojarra, tuna, and shrimp, respectively), as well as explore aquaculture and other sustainable production processes.

Target markets to reach are domestic and international (notably the United States, Canada, China, and Central America).

AUTOMOTIVE INDUSTRY

The low domestic content in Mexico's production, higher regional content required by the United States-Mexico-Canada Agreement, nearshoring trends and the strategic diversification of North and Bajío clusters toward more knowledge-intensive stages of the GVCs offer an opportunity for Chiapas to expand its participation in the automotive industry. Chiapas can leverage the presence of its small but strategic **motor vehicle parts manufacturing** sector to do so. The starting point could be on **relatively simple, low capital**

expenditure and labor-intensive auto parts (Tiers 2 and 3), preferably those with a higher value/weight ratio (to offset the higher logistics costs). In the medium term, **electric and electronic components** appear especially promising as these can be linked to the electric and high-tech vehicle production expected to dominate the industry. By fostering a cluster of such firms, Chiapas can encourage collaboration and synergies, and the development of local know-how.

FORESTRY SECTOR

There is a strategic opportunity to consolidate the **pulp, paper, and paperboard** subsector in Chiapas.

There are almost 350 pulp, paper, and paperboard manufacturers in the state, including a leading multinational firm located in Tapachula, at the border with Guatemala.

There is potential to **substitute imports** of paper and paperboard products

(trade deficit quadrupled since 1995), while targeting the demand for **containers and packaging** for agro-industrial products.

The subsector has an increasing reliance on recycled raw materials.

In the medium term, Chiapas requires the **development of sustainable commercial plantations** to curb deforestation and enable the production of furniture and other forest products.



ASSETS

- Surface area: 73,311 km² (3.7% of nat'l.)
- Proximity to the Central-American market
- Abundant biodiversity and forest resources
- High water availability: 116,399 hm³ in 2020 (25% of nat'l.), 5.7 times the nat'l. per capita availability
- Favorable edaphoclimatic conditions for agricultural production

- International port with commercial and touristic routes to and from Asia, the United States, South America, and Europe
- Connection to the Interoceanic Corridor of the Isthmus of Tehuantepec and Guatemala through the Chiapas-Mayab railway
- World-class culinary and cultural tourism destinations

- Competitive labor costs vis-à-vis other states
- Home to the Soconusco region: an agricultural area of more than 350,000 ha, which produces more than 30 crops including banana, coffee, cocoa, mangoes, oil palm, etc.



PEOPLE

TOTAL POPULATION (2023e) <i>8th largest in Mexico or 4.5% of nat'l. total</i>	5.9 million
MEDIAN AGE (2020) <i>nat'l. median: 29 years</i>	24 yrs.
SELF-IDENTIFIED INDIGENOUS POPULATION (2020) <i>nat'l. avg.: 19.4%</i>	36.8%
AVG. YEARS OF SCHOOLING (2020) <i>nat'l. avg.: 9.7 years</i>	7.8 yrs.
URBANIZATION RATE (2020) <i>nat'l. avg.: 79%</i>	49%
POVERTY RATE (2022) <i>nat'l. avg.: 36.3%</i>	67.4%
EXTREME POVERTY RATE (2022) <i>nat'l. avg.: 7.1%</i>	28.2%
GINI COEFFICIENT (2022) <i>nat'l. avg.: 0.431</i>	0.467
LIFE EXPECTANCY AT BIRTH (2020) <i>nat'l. avg.: 75.2 years</i>	74.3 yrs.



ECONOMY

GDP (2022 nominal) <i>1.9% of Mexico's GDP</i>	US\$22.9 billion
AVG. GDP GROWTH (2010–22) <i>nat'l. avg.: 1.9%</i>	1.0%
COMPETITIVENESS NATIONAL RANK (IMCO, 2023)	30/32
GDP SECTOR COMPOSITION (2022)	
Agriculture <i>nat'l. avg.: 4.1%</i>	6.7%
Industry <i>nat'l. avg.: 34.7%</i>	22.5%
Services <i>nat'l. avg.: 61.2%</i>	70.8%
ECONOMIC COMPLEXITY NATIONAL RANK, BY VALUE ADDED (2018)	28/32
EXPORTS (2023) <i>0.2% of nat'l.</i>	US\$1.3 billion

GDP PER CAPITA (2022 nominal) <i>34.6% of nat'l.</i>	US\$3,902
UNEMPLOYMENT RATE (2023 average) <i>nat'l. avg.: 2.8%</i>	2.1%
INFORMALITY RATE (2023 average) <i>nat'l. avg.: 55.1%</i>	74.6%
EMPLOYMENT, BY SECTOR (2023 averages)	
Agriculture <i>nat'l. avg.: 11.2%</i>	33.3%
Industry <i>nat'l. avg.: 25.2%</i>	18.0%
Services <i>nat'l. avg.: 63.6%</i>	48.6%
LABOR PRODUCTIVITY, % OF NAT'L. AVG. & NAT'L. RANK (2018)	47.9%, 30/32
FDI (2023) <i>0.1% of nat'l.</i>	US\$39.8 million



CROSSCUTTING CONSTRAINTS

Private sector development crosscutting constraints are related to **infrastructure, access to finance, land tenure, and human capital**.

- **Transport infrastructure** deficiencies prevent reaching intermediate and final markets.
- **Lack of access to natural gas**, and **limited electricity transmission and distribution** infrastructure could limit the development of energy-intensive activities.
- **Limited financial penetration and weak financial intermediation** affect the conditions under which local firms (notably MSMEs) can fund their operations.
- **Land fragmentation and communal property** deter private sector development, as it is difficult to secure larger land extensions to invest with legal certainty.
- **Human capital constraints** prevent either the expansion or sophistication of economic activities.



SECTORAL CONSTRAINTS

AGRO-INDUSTRY

- **Deficient roads** constrain market access, particularly between rural agricultural production regions and urban areas (main domestic markets) or export points.
- **Market concentration** in the inputs segment undermines small farmers' ability to access high-quality fertilizers and seeds at competitive prices.
- **Land fragmentation** prevents economies of scale, market access for large-scale standardized agriproducts, and reduces small-scale producers' bargaining power.
- Unclear definition of property rights in **communal land** prevents its use as **collateral for loans**.
- Exports to the United States and the European Union are subject to **strict regulations and certifications**, which can be costly for small producers to obtain and comply with.

AUTOMOTIVE INDUSTRY

- **Population dispersion** and low labor mobility undermine the state's advantage in low labor costs.
- **Inadequate electricity supply and communications systems** constrain the expansion of the industry.
- **Low quality roads and high incidence of blocked routes** undermine the logistic to integrate with value chains in the North and Bajío regions that operate under "just-in-time" systems.
- Lack of a consistent **public-private strategy** to expand the sector.
- **Lack of skilled workers** and the **absence of a design and engineering center** (closest one is in Puebla) prevent the development of more advanced segments of the industry's value chain.

FORESTRY SECTOR

- Chiapas is among states most **vulnerable to arboreal diseases and forest fires**.
- **Illegal logging and forests burning** have led to significant deforestation in the state.
- **Burdensome regulations, combined with lax enforcement**, stimulate a growing illegal market, reducing the profitability of sustainable forestry production.
- **Communal landowners often lack the capacity to organize** and comply with long-term sustainable production contracts, in terms of the required volume, quality, and certifications.
- **Insufficient storage capacity** for germplasm to accommodate greater forest production.
- **Paper recycling rates are still below** the global average and those of leaders such as Australia and Japan.



POTENTIAL LOCATIONS TO DEVELOP/EXPAND SELECTED SECTORS*

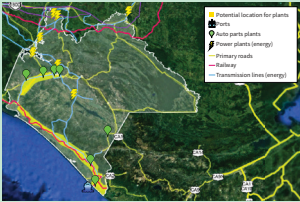
AGRO-INDUSTRY

Coastal areas (notably Tapachula); the central region from Arriaga to Tuxtla Gutiérrez and Ocozocoautla de Espinosa and from Tuxtla Gutiérrez to Comitán de Domínguez; and the northern region close to Palenque.



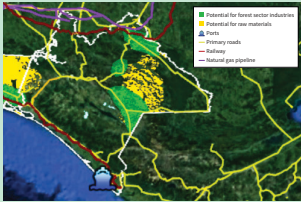
AUTOMOTIVE INDUSTRY

Along the southwestern coastal region from Ciudad Hidalgo to Arriaga, and the corridor from Arriaga to Tuxtla Gutiérrez, including the cities of Cintalapa and Ocozocoautla de Espinosa.



FORESTRY SECTOR

Primary production: eastern part of the state near Selva Lacandona and Meseta Comiteca–Tojolabal regions (out of protected areas).



Industrial production: areas surrounding Comitán de Domínguez and Palenque.



POLICY RECOMMENDATIONS TO UNLEASH SECTOR GROWTH

AGRO-INDUSTRY

- **Improve** road and logistic infrastructure to connect farmers, industries, and final markets.
- **Consolidate** existing agro-industry parks and **develop** new ones in feasible locations.
- **Support** small producers to establish cooperatives to enhance horizontal integration, improve and scale up operations, increase market access (including standards/certification compliance), and strengthen bargaining power.
- **Create** supplier-development programs in coordination with anchor firms.
- **Create or adapt** R&D and agro-industrial extension centers in partnership with the private sector and academia.
- **Enforce** the Competition Law and **support** the entry of new firms into the input and intermediary markets.
- **Improve** the design, targeting, and transparency of agricultural programs, and **strengthen** the rural financial sector.
- **Promote** off-farm activities in rural areas including agro- and eco-tourism.

AUTOMOTIVE INDUSTRY

- **Improve** transportation infrastructure to connect with clusters in the North and Bajío regions and with international markets.
- **Establish** a PPP tasked with identifying, attracting, retaining, and expanding investment for auto parts manufacturing.
- **Implement** a demand-driven supplier-development program complemented by financial support to integrate local firms into the automotive supply chain.
- **Create** a public trust to acquire, **manage**, and **allocate** land for industrial parks or the establishment of anchor firms.
- **Modernize** local universities' curricula and establish technical institutes to meet industry-specific workforce skills demand.
- **Create** an incentives program for R&D activities and technology transfer to promote gradual upgrading.
- **Establish** a thematic R&D center in collaboration with state universities, CONAHCYT, and leading firms in the medium-term.

FORESTRY SECTOR

- **Build** monitoring capacity, **increase** penalties, and **simplify** agrarian and environmental regulations to stop illegal logging and burning.
- **Improve** road and railroad infrastructure to connect forestry sector manufacturers with primary producers and final markets.
- **Support** the development and training of community forest enterprises in topics such as forest management, production systems, sustainability, and business practices.
- **Promote** joint ventures, long-term production-sharing contracts, unified negotiations, and other arrangements to enhance production in areas where forested land is largely communal.
- Design a strategy to prevent and respond to **wildfires** in forest regions of the state.
- **Implement** sustainable development practices along the entire value chain.
- **Improve** infrastructure for the production and storage of germplasm, and for the collection of recycled material.

Note: CONAHCYT = Consejo Nacional de Humanidades, Ciencias y Tecnologías (National Council of Humanities, Science, and Technology); e = estimate; FDI = foreign direct investment; GDP = gross domestic product; GVCs = global value chains, ha = hectare; hm = hectometer; IMCO = Instituto Mexicano para la Competitividad (Mexican Institute for Competitiveness); km = kilometer; MW = megawatts; PPP = public-private partnership; R&D = research and development; MSMEs = micro, small, and medium enterprises.

*The symbols are only indicative and are not meant to reflect exact locations.