

CREATING MARKETS IN GUERRERO, MEXICO



OPPORTUNITIES

The Deep Dives explored two critical sectors for Guerrero: agro-industry and forestry sector. Private investment in these sectors could enable the state to accelerate economic growth, reduce development gaps, diversify its economy, and integrate into global value chains (GVCs).

AGRO-INDUSTRY

In 2021, Guerrero was among Mexico's 10 largest producers of **coconut** (1st); **mango**, **melon**, and **sesame** (2nd); **cocoa** (3rd); **coffee and watermelon** (5th); **guava**, **papaya**, and **avocado** (6th); **chickpea**, **corn**, and **banana** (7th); **lemon** and **peach** (9th); and **pineapple** and **palay rice** (10th).

There is potential to increase the production of fresh agriproducts and develop higher added-value processed products. Establishing agro-industry parks could help the state realize this opportunity. **Private initiatives have already emerged**, including an agro-industry park project aiming to process **coconut** production in the coastal region, taking full advantage of all its components, including the palm tree, to elaborate a wide range of by-products, with the capacity to process other primary products such as **mango** and **lemon**.

A similar project is being deployed on the coast of Oaxaca, suggesting the opportunity to promote an **interstate cluster of common agriproducts** with collection centers, processing plants, and R&D facilities along the coast and close to both states' borders.

There is also potential to expand the production of **meat** (5th largest producer of goat meat in Mexico for 2021) and **fish** (5th, 8th, and 9th largest producer of lobster, tuna, and mojarra, respectively), exploring aquaculture and other sustainable production processes in the latter.

Target markets to reach are domestic and international (notably the U.S. West Coast, Asia, and Central America).

FORESTRY SECTOR

There is a strategic opportunity to consolidate the furniture subsector in Guerrero, which is among the top 10 states with more plants and installed capacity for wood production, and reflects a **comparative advantage for exports of plywood, veneered panels, and similar laminated wood**.

Guerrero ranks among the top eight states with the largest forest surface authorized for wood production (covering more than 170,000 ha, 2.8% of the total); comparable to Oaxaca (covering more than 180,000 ha, 3% of the total), which is the third-largest producer of timber in Mexico. Hence, improving the productivity of the surface could increase the sector's potential by

supporting **large-scale production of basic furniture or furniture components** to supply anchor firms. Over time, the industry could gradually evolve into more sophisticated products such as ready-to-assemble furniture, which is gaining market and attracting investments in Mexico.

There is also an opportunity to develop the **pulp, paper, and paperboard** subsector, which is increasingly relying on recycled raw materials. Guerrero has already close to 300 firms focused on paper manufacturing. **Expanding the presence of this industry could reduce dependence on imports**, as Mexico's trade deficit of paper and paperboard has nearly quadrupled since 1995.



ASSETS

- Surface area: 63,595.9 km² (3.2% of nat'l.)
- Among the five largest mining states in Mexico, and the largest one in the South-Southeast region
- Road connectivity to one of Mexico's main ports (Lázaro Cárdenas), providing access to the U.S. West Coast and Asian markets, and to the Interoceanic Corridor of the Isthmus of Tehuantepec (port of Salina Cruz), with

- multimodal connectivity to both coasts of the United States
- Proximity to Mexico City, the largest state economy, which concentrated 17.9% of Mexico's GDP in 2022
- Holds Acapulco and Ixtapa Zihuatanejo, among Mexico's most popular tourist destinations

- High biodiversity and favorable edaphoclimatic conditions for agricultural production
- High water availability: 21,520 hm³ in 2020 (4.7% of nat'l.), 1.7 times the nat'l. per capita availability



PEOPLE

TOTAL POPULATION (2023e) <i>14th largest in Mexico or 2.7% of nat'l. total</i>	3.6 million
MEDIAN AGE (2020) <i>nat'l. median: 29 years</i>	27 yrs.
SELF-IDENTIFIED INDIGENOUS POPULATION (2020) <i>nat'l. avg.: 19.4%</i>	33.1%
AVG. YEARS OF SCHOOLING (2020) <i>nat'l. avg.: 9.7 years</i>	8.4 yrs.
URBANIZATION RATE (2020) <i>nat'l. avg.: 79%</i>	60%
POVERTY RATE (2022) <i>nat'l. avg.: 36.3%</i>	60.4%
EXTREME POVERTY RATE (2022) <i>nat'l. avg.: 7.1%</i>	22.2%
GINI COEFFICIENT (2022) <i>nat'l. avg.: 0.431</i>	0.450
LIFE EXPECTANCY AT BIRTH (2023) <i>nat'l. avg.: 75.3 years</i>	72.9 yrs.



ECONOMY

GDP (2022 nominal) <i>1.6% of Mexico's GDP</i>	US\$19.1 billion
AVG. GDP GROWTH (2010–22) <i>nat'l. avg.: 1.9%</i>	0.8%
COMPETITIVENESS NATIONAL RANK (IMCO, 2023)	32/32
GDP SECTOR COMPOSITION (2022)	
Agriculture <i>nat'l. avg.: 4.1%</i>	5.8%
Industry <i>nat'l. avg.: 34.7%</i>	20.1%
Services <i>nat'l. avg.: 61.2%</i>	74.1%
ECONOMIC COMPLEXITY NATIONAL RANK, BY VALUE ADDED (2018)	32/32
EXPORTS (2023) <i>0.2% of nat'l.</i>	US\$1.2 billion

GDP PER CAPITA (2022 nominal) <i>47.1% of nat'l.</i>	US\$5,305
UNEMPLOYMENT RATE (2023 average) <i>nat'l. avg.: 2.8%</i>	1.2%
INFORMALITY RATE (2023 average) <i>nat'l. avg.: 55.1%</i>	78.3%
EMPLOYMENT, BY SECTOR (2023 averages)	
Agriculture <i>nat'l. avg.: 11.2%</i>	28.2%
Industry <i>nat'l. avg.: 25.2%</i>	18.7%
Services <i>nat'l. avg.: 63.6%</i>	53.1%
LABOR PRODUCTIVITY, % OF NAT'L. AVG. & NAT'L. RANK (2018)	45.1%, 31/32
FDI (2022) <i>–0.5% of nat'l.</i>	–US\$178.8 million



CROSSCUTTING CONSTRAINTS

Cross-cutting constraints for private sector development are mainly related to **land tenure, human capital, infrastructure, access to finance and security**:

- **Land fragmentation and communal property** deter private sector development, as it is difficult to secure larger land extensions to invest with legal certainty.
- **Weak logistical systems and poor transportation infrastructure combined with a ripped topography** increase operational costs and reduce productivity.
- **Lack of access to natural gas and limited electricity transmission and distribution infrastructure** could limit the development of energy-intensive activities.
- **Low human capital** prevents the sophistication of economic activities and industrialization.
- **Limited financial penetration and weak financial intermediation** affect the conditions under which local firms (notably small and medium enterprises and entrepreneurs) can fund their operations.
- in some parts of the state, **fragile security conditions** undermine the operations of businesses.



SECTORAL CONSTRAINTS

AGRO-INDUSTRY

- **Deficient roads and lack of connection to Mexico’s railway system** constrain access to markets, particularly those connecting rural regions (where agricultural production is concentrated) with urban areas (main domestic markets), while the **absence of an international commercial port** in the state limits its direct reach of overseas markets.
- **Sector-specific infrastructure is deficient**, as water costs are relatively high, coverage of irrigation districts and storage capacity is insufficient, and the state produces more livestock than its slaughterhouses can handle.
- **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 and reaching key markets requiring agriproducts at a high scale and standardized quality, and reduces the bargaining power of small-scale producers.
- **Access to finance** is significantly constrained not only for agricultural activities but also for food and beverage industries.
- 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.

FORESTRY SECTOR

- **Lack of transmission lines** constrains the manufacturing of high energy-intensive products, such as pulp, paper, and paperboard.
- **Limited coverage and low quality of paved roads, and the lack of connection to Mexico’s railway system** constrain the growth of most forest subsectors (highly freight intensive).
- **Availability and access to water resources** in northern Guerrero could be a relevant constraint for the forestry sector.
- High **vulnerability to forest diseases and fires, illegal logging, and burning** result in significant deforestation.
- **Burdensome regulations with lax enforcement** promote a growing illegal market, reducing the profitability of sustainable production.
- **Sector-specific infrastructure is deficient**, as there is **insufficient germplasm storage capacity and no community seed banks**.
- **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.
- **Few financial products** with tenures aligned with the investment and return periods of forest projects, and unclear definition of property rights in **communal land** prevents its use as **collateral**.



POTENTIAL LOCATIONS TO DEVELOP/EXPAND SELECTED SECTORS*

AGRO-INDUSTRY

Areas around Acapulco, and in the southeast region of Costa Chica that is connected by the Federal Highway 200. There is also potential between Zihuatanejo and La Unión, on the west coast, and around the regions of Tierra Caliente and Zona Norte.

FORESTRY SECTOR

Primary production: areas within the west, center, and south of the state, including Costa Grande, Tierra Caliente, and Centro regions.

Industrial production: near the Federal Highway 95D that connects Acapulco with Mexico City; around Tierra Caliente; and between Zihuatanejo and Lázaro Cardenas, Michoacán, in the coastal region.



POLICY RECOMMENDATIONS TO UNLEASH SECTOR GROWTH

AGRO-INDUSTRY

- **Enhance** road infrastructure to connect farmers, industries, and final markets (including the connection with the ports of Lázaro Cárdenas and Salina Cruz), as well as sector-specific infrastructure (irrigation, grain and cold storage facilities, and slaughterhouses).
- **Implement** training programs to increase the supply of skilled workers, mainly for food and beverage and supporting industries.
- **Create** supplier-development programs in coordination with anchor firms and/or potential investors.
- **Support** the establishment of cooperatives to enhance horizontal integration among small-scale producers to improve and scale up operations, and increase/improve market access.
- **Support** farmers to comply with standards/certification requirements to reach final consumption and export markets.
- **Consolidate** existing agro-industry parks projects and **develop** new ones in feasible locations. **Facilitate** the acquisition of land (including through conditional land grants) to large private investments with substantial economic/social benefits.
- **Create** or adapt R&D and agro-industrial extension centers to improve the quality of agricultural inputs and encourage industrialization.
- **Enforce** the Competition Law and support new entrants into the input and intermediary markets.
- **Improve** the design, targeting, and transparency of agricultural programs, and strengthen the rural financial sector.
- **Support** the development of financial products tailored to the needs of small and medium producers, particularly for getting inputs, equipment, machinery, and certifications required to reach high-end and export markets.

FORESTRY SECTOR

- **Improve** roads and start the development of railway infrastructure to connect existing/potential clusters with the national system.
- **Design** and implement a strategy to prevent/respond to wildfires.
- **Build** monitoring capacity, increase penalties, and simplify agrarian and environmental regulations to stop illegal logging and burning. Creating a single window to facilitate compliance with sectoral regulations and obtain certifications is recommended.
- **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.
- **Support** the establishment of forest industry clusters in regions near forest production areas and/or major paper recycling locations, ensuring they have access to necessary inputs and services for manufacturing processes.
- **Create** R&D centers for innovation in the design of affordable and multifunctional (home and office) products and promote partnerships with financial technology (or fintech) and logistics firms to launch online furniture sales platforms.
- **Create** a financing and technical support program to increase productivity and improve practices along the value chain.
- **Consolidate** resources from development banking institutions to design tailor-made products to support the growth of the forestry sector (assess/adjust existing financing instruments accordingly).
- **Develop** infrastructure to access natural gas in Guerrero’s coastal region by connecting it to the pipeline in Michoacán.