INTRODUCTION

It is broadly acknowledged that Mexico’s economic development in recent decades has been uneven: strong in the northern and central regions and weak in the south. Although previous administrations have sought to address this socioeconomic divergence through various initiatives and mechanisms, deep-rooted regional disparities have made it much harder than expected to narrow the gap and, as a result, require further consideration from policymakers.

In its National Development Plan, the government of Mexico (GOM) presented and described the public policies and projects that it intended to carry out between 2019 and 2024. Many of these projects, as explained, seek to encourage regional economic development and tackle subnational inequalities. One of its most important plans for subnational development is the Program for the Development of the Isthmus of Tehuantepec (PDIT), which centers on a narrow strip bridging the southern states of Veracruz and Oaxaca (Figure 1). This program aims to expand the region’s economy on the back of a logistical platform known as Interoceanic Corridor (IC).

Since taking office in December 2018, President Andrés Manuel López Obrador, a native of the state of Tabasco in the country’s south, has made this region a priority in his development agenda. In fact, three out of the four most important infrastructure and development projects of his administration are located in the south. In López Obrador’s view, the Interoceanic Corridor (IC) in the Isthmus of Tehuantepec, along with the Maya Train and Dos Bocas refinery in Tabasco projects, are essential to alleviate the pressing socioeconomic problems of the southeastern states and, ultimately, will allow them to catch up with the more competitive and industrialized states in central and northern Mexico.

THE INTEROCEANIC CORRIDOR

The Isthmus of Tehuantepec has been the subject of renewed interest for many years. First, the administration of President Vicente Fox (2000–2006) developed a plan known as the Plan Puebla Panama, which sought to draw special attention to the development of Mexico’s southern region, along with Central America. Not much came of it, however. Second, the government of President Enrique Peña Nieto (2012–2018) sought to implement a program branded as Special Economic Zones (SEZ), which included, among other regions, Coatzacoalcos in Veracruz and Salinas Cruz in Oaxaca and some of their neighboring municipalities. However, little if any progress was achieved since Peña Nieto postponed the project until the penultimate year of his term (2017), and his decrees to lawfully declare both regions as Special Economic Zones came too late to act upon.

The task of setting up 10 industrial parks, whose output can take advantage of the upgraded logistical infrastructure and can be marketed elsewhere in Mexico or abroad, sounds like a policy worth implementing.
More recently, López Obrador deemed his predecessor’s plan unfit and abrogated the decrees, unveiling instead as part of his government’s National Development Plan 2019–2024 the projects mentioned above, and which are now part of the Program for the Development of the Isthmus of Tehuantepec. All such plans have at their core, efforts to strengthen the region’s logistical (port and railway infrastructure) and industrial profile.

Contrary to the SEZ framework proposed by Peña Nieto, whose area of influence spanned a handful of municipalities flanking Coatzacoalcos and Salina Cruz, the PDIT appears to be a more comprehensive development strategy in the sense that it seeks to impact a much larger territory—79 municipalities, 33 in the state of Veracruz and 46 in the state of Oaxaca—and, consequently, encompass a wider range of economic activities (Figure 1).

The Isthmus of Tehuantepec has a long and important history. It was the object of a treaty between the U.S. and Mexico—the McLane–Ocampo Treaty—which was never truly implemented, as it was replaced by the Panama Canal project. More recently, the Isthmus has been considered strategic, since it connects economic activities in southern states with consumers in the rest of the country, and vice versa, and boasts Mexico’s shortest distance between the Gulf of Mexico and the Pacific Ocean. Other features that boost the region’s potential is its production capabilities, which include one refinery in Minatitlán and another in Salina Cruz, an important assembly of petrochemical firms in Coatzacoalcos and neighboring municipalities, wind farms in the Juchitán area, to name a few examples (Figure 1).

Thus, from the government’s perspective, it makes sense to anchor the region’s economic and industrial prospects to upgrades in logistical capabilities—namely, the Port of Coatzacoalcos and the Port of Salina Cruz, the Isthmus of Tehuantepec railway (which links both ports), and road infrastructure (including in rural areas).
In the medium- and long-term, the overarching goal of the PDIT is to bolster regional economic growth through the establishment of 10 industrial parks (also referred to as “Development Poles for Wellbeing”). The means to that objective is the Interoceanic Corridor, which, as noted, is a multimodal logistical platform whose underlying principle is to make the most of the geographical advantages of the Isthmus of Tehuantepec and, later, enhance and synchronize the region’s productive capabilities, current and projected. To achieve this goal, the GOM recognizes the need for investments to shore up existing logistical infrastructure.

Fundamental to the Interoceanic Corridor’s objectives is the railroad that connects both ports and a handful of important cities between them, such as Minatitlán in Veracruz and Matías Romero in Oaxaca. In its Coatzacoalcos–Medias Aguas section (both in Veracruz), a private company operates the railroad under a concession and it is apparently in satisfactory working condition. But in the second half of the rail line, which stretches for 206 kilometers from Medias Aguas to Salina Cruz and is composed of five sections, improvements are required to adjust curves and slopes, principally. It is reported that rehabilitation works are underway in each of the sections and are estimated to conclude later in 2021.

The seaport of Coatzacoalcos has also received investments to boost its operating capacity. In the Pajaritos Lagoon, which is connected to the region’s petrochemical facilities and is part of the city’s port infrastructure, the government in March 2021 completed the expansion of a pier to enable the mooring of two vessels of up to 180 meters in length, as well as the widening of an access road to the port area from two to four lanes. These works will be complemented by construction and maintenance dredging of port access channels and the projected construction of a container terminal in Coatzacoalcos.

While progress appears to be made concerning the logistical component of the Interoceanic Corridor, the most challenging task will be to effectively establish the 10 industrial parks the López Obrador government plans to create along the Isthmus. The reasoning is that, for regional economic development in the medium- and long-term, it is necessary to expand manufacturing activities—and for that to materialize, the government must put in place the appropriate conditions and incentives. This is particularly difficult given the López Obrador administration’s complicated relationship with private investors, many of whom are hesitant to pour money into new projects in light of a perceived unfriendly regulatory environment. Even so, a preferential tax scheme under consideration would reduce the value added tax (IVA) from 16% to 8% and the income tax (ISR) from 30% to 20%. This, as well as the price of fuels, which will be offered at a discount, could lure investors to the industrial parks.

Still, the potential of the region and that of the PDTI is limited by the hurdles and unresolved issues that need to be addressed to reach the GOM’s objectives. Tax incentives are not enough if areas where industrial parks are meant to be located lack essential services such as water, electricity, transportation connectivity, and natural gas. Policymakers are conscious of this and intend to provide the zones with last-mile services. That, however, requires enormous investment up front and, especially, time.

Natural gas deserves further attention in this discussion, as the drop in production, principally in the southeast of the country, and infrastructure bottlenecks, which hinder access to natural gas imports from the U.S., represent important hurdles to clear. Is it possible to develop a manufacturing base in the Isthmus without natural gas? That is open to debate, but if industrial parks are to be competitive in national and even international markets, the supply of natural gas is an issue yet to be sorted out. The government acknowledges that there is a direct association between productivity and a state’s economic development (measured in GDP per capita) and the consumption of natural gas. Hence, as part of the Interoceanic Corridor, the López Obrador administration plans to upgrade the Jaltipán–Salina Cruz natural gas transport...
system to serve regional demand, including that of the Salina Cruz refinery. Operations are estimated to start in 2022, but most projects are falling behind, partly due to the financial constraints caused by the pandemic.

The task of setting up 10 industrial parks, whose output can take advantage of the upgraded logistical infrastructure and can be marketed elsewhere in Mexico or abroad, sounds like a policy worth implementing. However, the government faces yet another layer of key challenges.

As the Interoceanic Corridor could impact a region known for the strong presence of indigenous communities and other stakeholders, such as grassroots social movements, effective engagement among all of the on-the-ground actors and policymakers, as well as investment firms, is a must. Advance word must be spread with the goal of preventing social opposition and even conflicts with project development, or in this case, with the establishment of industrial parks. Mexico’s law has already established prior consultation mechanisms, but these have yet to be tested as a way to prevent social conflict arising from infrastructure development projects.

Moreover, the degree of social opposition or consent may vary from one industrial park to another, as stakeholders from different localities are likely to embrace different interests. In the case of the parks to be situated in Coatzacoalcos and Salina Cruz, known as 5 de Mayo and Polígono 14, respectively, the previous administration included them in the Special Economic Zones program, and they were later incorporated by the current administration into the Interoceanic Corridor framework. Of the remaining eight industrial parks, it has been reported that land has been secured for two; one is sited in Coatzacoalcos and the second is in Texistepec, in Veracruz. Here, the point to emphasize is that industrial parks in proximity to or within existing industrial areas, such as those in Coatzacoalcos and Salina Cruz, could be confronted with fewer social issues compared with industrial parks whose area of impact includes indigenous communities.

In a region as diverse, unequal, and complex as the Isthmus of Tehuantepec, the concerns and interests of local communities must be considered if the goals set by the government of López Obrador are to be achieved. Mexico’s record on this point is less than optimal. An example on the Oaxaca side illustrates the complexity of the situation and the importance of engaging with local groups. Road blockades by various stakeholders are more frequent than one can imagine. When reaching out to a local media outlet to find out the number of such incidents, the response was “there are too many at different points that we cannot cover them all and keep count.”

So far, the prior consultation process continues. It appears to have begun on March 30–31, 2019, when the government hosted 21 consultative assemblies with indigenous groups in different parts of the Isthmus. However, a report published in February 2021 by the Superior Audit Office of the Federation (ASF) revealed that the authorities in charge of the assemblies failed to make public the results and the agreements derived from them. On May 1–2, 2021, the government and indigenous communities announced that the government resumed the prior consultation process in three localities in the state of Oaxaca.

Thus, as an economic development strategy, the Interoceanic Corridor is faced with numerous challenges, not only in terms of basic services required by the potential industrial parks, but also in terms of social consent. Moreover, the ASF has expressed concerns about “the technical, legal, environmental, and economic feasibility of its projects, arguing that demand estimates, associated with the profitability of the projects, did not consider reasonable assumptions.” This statement leads us to wonder if the government is overestimating the general feasibility of the Interoceanic Corridor framework and if an adequate due diligence process has been carried out. While there is not enough evidence to reach a conclusion in that regard, at least for now, it is certainly possible to find plenty of evidence concerning the socioeconomic shortcomings of the region.

If the government seeks to foster economic progress in the Isthmus of Tehuantepec, a top-down approach must be complemented with bottom-up policies and initiatives.
MEXICO’S NORTH–SOUTH DEVELOPMENT GAP

As noted earlier, the southern region of Mexico sits at the top of the government’s development policy agenda. And with good reason. When it comes to comparing socioeconomic indicators at the subnational level, southern states—more often than not—lag behind the central and northern regions. Development programs (and policies) such as the Interoceanic Corridor may raise questions such as those expressed by the ASF—all legitimate concerns—but the debates around the Isthmus of Tehuantepec, and the states of Veracruz and Oaxaca, illustrate the extent of the north–south development gap (Figure 2). In this regard, López Obrador appears convinced that the Interoceanic Corridor, which will allegedly equip the region with upgraded logistical infrastructure and productive capabilities, can help boost competitiveness and eventually raise the standard of living. What is yet not clear is how the private sector will participate, as it has been crucial in other region’s development but is under great suspicion by the current administration itself, which would prefer this to be a project entirely directed by the government.

What is uncontestable is that residents of southern Mexico are in dire need of a higher standard of living. Not doing so threatens to drag Mexico into a continuous state of underdevelopment. For example, when measuring the share of the country’s population living in poverty, the six states at the bottom of the list shown in Figure 2 are all situated within the southern region. Poverty levels shown for Veracruz and Oaxaca in 2018 are unacceptable, and more so if one considers that these values have risen in comparison to the previous decade. The share of Oaxaca’s population living in poverty stood at 66.35% in 2018, up from 61.8% in 2008, as reported by Mexico’s National Council for the Evaluation of Social Development Policy (CONEVAL). In the case of Veracruz, figures are even more disturbing, as poverty soared from 51.2% of its total population in 2008 to 61.8% in 2018. In other words, of the 32 states in Mexico, only six states registered poverty increases as share of population between 2008 and 2018, and of these, the two worst performers were Oaxaca and Veracruz. These numbers arguably reflect the failure of the poverty–fighting public policies implemented in the last decade.

The north–south development gap is also clearly evident in terms of income per capita (Figure 3). With the exception of Tabasco and Campeche, all southern states are found in the bottom half of the list, while central and northern states dominate the top half. In this regard, it is instructive to review the size of the income gap between a resident of the Isthmus of Tehuantepec and the country’s 2018 average (expressed in U.S. dollars).
Oaxaca’s average income, the third-lowest in 2018, was 48.4% of Mexico’s average income, while Veracruz’s was 68.8% of the country’s average. Now, if the same exercise is performed in relation to Mexico City and the State of Nuevo León, we see that the income of each Oaxacan resident is 20.8% and 26.9% of those states’ income per capita, while Veracruz’s average income is 29.6% and 38.3%, respectively.

As discussed, poverty and income per capita statistics are among the lenses through which state inequalities in Mexico can be demonstrated. Two additional indicators that relate to both poverty and income similarly reveal a large structural shortcoming of subnational economies: jobs in the informal economy (i.e., those that are neither taxed nor monitored/protected by the government) and years of education. Again, the numbers are stunning. As of the fourth quarter of 2020, 72.2% of workers in Oaxaca and 61.3% of workers in Veracruz participated in the informal economy, compared to 51.1% in Mexico overall.26 The fact that most workers in Oaxaca and Veracruz take part of the informal economy hinders any policy effort to increase income and decrease poverty in those states.

The government must also consider the issue of the region’s educational levels, which reflect the quality of the available labor force. As of 2020, Oaxacans on average received 8.1 years of education; the average in Veracruz is 8.7 years of schooling. This means that in these states, the bulk of residents over the age of 15—its workforce—has not completed high school. The educational record in Oaxaca and Veracruz puts them among the top 5 worst performers in Mexico; residents of Mexico City and Nuevo León had the most education, with 11.5 and 10.7 years in school, respectively.27 With a labor force in need of training, questions arise. For instance, what kind of companies can Oaxaca and Veracruz attract to the projected industrial parks (principally those outside of Coatzacoalcos and Salina Cruz)? These education levels demonstrate that for the Interoceanic Corridor to reduce intraregional inequalities and the development gap with central and northern states, the government must also formulate and implement complementary policies targeting the social and economic issues that have long held back region. Allegedly, the government has taken notice and additional policies measures are being contemplated.

If the government seeks to foster economic progress in the Isthmus of Tehuantepec, López Obrador’s policies must look beyond developing the logistics platform and the creation of industrial parks. A top-down approach must be complemented with bottom-up policies and initiatives. It is also unlikely that development will be accomplished through government investment alone. The private sector must be incentivized to participate.
These points are also relevant to addressing inequalities in the Isthmus of Tehuantepec itself, as the reach and impact of projects will not be consistent throughout the region. Today, the socioeconomic gap among municipalities is even wider than that between northern and southern states. To that end, the Municipal Human Development Index (MHDI) is a comprehensive, valuable tool that helps us understand this problem. Of the 79 municipalities targeted by the Interoceanic Corridor project, 29 lie on the side of the State of Veracruz. And as shown in Figure 4, the region boasts cases in which the MHDI is higher than the national average and that, at the same time, are surrounded by localities considered highly marginalized.

Coatzacoalcos, where the government is investing to upgrade port facilities and planning two industrial parks and other energy-related projects, tops the list with an MHDI of 0.796, but it is flanked to the west by Pajapan (0.602), Mecayapan (0.602) and Soteapan (0.595), municipalities at the bottom of the list, with important indigenous groups and basically with no industrial capabilities. Coatzacoalcos is also neighbored by Minatitlán and Cosoleacaque, municipalities with a MHDI of 0.766 and 0.752, respectively, which house a relatively important industrial base (one refinery and state-owned and private petrochemical firms). It is evident that one of the fundamental challenges for the Interoceanic Corridor—and for any other policy/project for that matter—is not to make these contrasting realities even worse. The question that lingers is if policy makers will be capable to avoid such a trap and narrow socioeconomic inequalities between the more industrialized municipalities and those with a higher share of indigenous communities.

The HDI of Oaxaca (0.703) trails that of Veracruz (0.738) and both are located beneath the country’s average (0.779). And in this case, it is worth emphasizing that disparities between the 46 municipalities included in the Interoceanic Corridor project are broader that those found in Veracruz. At 0.813, El Espinal’s MHDI tops that of Mexico and is the municipality with the highest value in both states, whereas San Lucas Camotlán, with an MHDI of 0.534, falls to the bottom as it features the
lowest value in both states (Figure 5). In social and economic terms, the context of Oaxaca appears to be more complex and challenging, and it risks widening disparities if, as noted earlier, the Interoceanic Corridor (and other schemes) fail to incorporate and address in a successful manner the interests and concerns of indigenous communities and other stakeholders.

On the Oaxaca side of the Isthmus, the city of Salina Cruz (0.790) is viewed as the industrial epicenter as it boasts port facilities, a refinery, and a more diversified industrial base than its peers. And similar to the example of Coatzacoalcos, above, it is flanked by smaller municipalities with a lower MHDI, such as San Pedro Huilotepec (0.681) and San Mateo del Mar (0.570).³⁰

The fact that economic and industrial activities heavily gravitate around the ports of Coatzacoalcos in Veracruz and Salina Cruz in Oaxaca, and that both are being targeted with investments linked to the Interoceanic Corridor, poses a fundamental question: Will the potential benefits be captured by the more advanced and better-equipped municipalities/regions? The task of the López Obrador administration is to prevent that from happening and to ensure that, via investments and other complementary policies, inner regions of the Isthmus be also well positioned to profit. In the absence of these, imbalances are likely to persist and even grow.

All in all, with the Isthmus of Tehuantepec exhibiting the consequences of the disregard from previous administrations, largely manifested in the rise of poverty levels between 2008 and 2018, the Interoceanic Corridor, as a regional development scheme, deserves the benefit of the doubt. Still, the challenges are enormous. To develop Mexico’s south, the country will need a long-term strategy—one that will ensure that while presidents come and go, the projects will stay and move forward.

**FIGURE 5 — MHDI OF OAXACA MUNICIPALITIES IN THE ISTHMUS OF TEHUANTEPEC, 2015**

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**SOURCES** UNDP Mexico, UNDP and Global Data Lab, *2019 and **2018*
CONCLUSION

The Isthmus of Tehuantepec is a complex and diverse region, full of contrasts, but at the same time, it is also rich in natural and cultural resources. Tapping its potential is a long-awaited national project. The Interoceanic Corridor is the instrument chosen by the López Obrador administration to spark development in the region, aiming to boost the economic and social prospects of the 79 municipalities. But, as the focus is on the logistical infrastructure as well as the creation of industrial parks, many questions remain as to other important issues where both states lag behind.

Clearly, developing the south is important to Mexico’s overall social and economic agenda. Without the south catching up to the north, Mexico’s progress will always be incomplete and unjust. Several administrations have known this, but none has been able to put in place policies to do so. The challenges, too, are enormous. Thus, the key questions are: Will the government’s strategy be enough? Will the right social, fiscal, and political conditions for detonating development in the region be in place in time? Will firms be attracted by conditions offered by the government and invest in the region? The future success of the region, as well for the entire country, depends on the answers to these questions.

ENDNOTES


3. The influence of said projects encompasses the states of Veracruz, Oaxaca, Tabasco, Chiapas, Campeche, Yucatan, and Quintana Roo. Frequently, Guerrero and Puebla are also viewed as southeastern states, although both lie outside the geographical scope of these three government–led projects.


8. To explore the Isthmus’ railway connections to the rest of the country, see Mexico’s Secretariat of Communications and Transportation (SCT), “National rail system, interactive map,” https://bit.ly/3xShovU.

9. To correct curves and slopes, the intention is for the Isthmus of Tehuantepec train to increase their speed. Progress has been made on 41% of the project as of March 2021. See Program for the Development of the Isthmus of Tehuantepec, “Progress of works of the Interoceanic Corridor, March 29, 2021,” https://bit.ly/33b6CTf. See also Mexico’s government, “An investment of more than MX$20 billion is contemplated in the Isthmus of Tehuantepec,” press release no. 05, June 7, 2020, https://bit.ly/3vBZ7Wm.


14. Jaltipán is a municipality located in the state of Veracruz.


20. In this argument, we have considered Puebla as being in southern Mexico.


23. From 2008 to 2018, the share of population living in poverty in Campeche grew from 45.9% to 46.2%, in Mexico City from 27.6% to 30.6%, in Morelos from 48.8% to 50.8%, and in Sonora from 27.1% to 28.2%. See CONEVAL (National Council for the Evaluation of Social Development Policy), Statistical annex of poverty in Mexico 2008–2018, https://bit.ly/3d9ivZK.

24. In terms of income per capita, Campeche and Tabasco are outliers among southern states, given its hydrocarbon production.


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