

## Regional - Sectoral Analysis

# Oaxaca Pact: Infrastructure for the South & Southeast

Carlos Serrano / Gerónimo Ugarte

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## Construction and refurbishing of existing infrastructure projects

The Southern or Southeastern states of Chiapas, Campeche, Guerrero, Oaxaca, Puebla, Quintana Roo, Tabasco, Veracruz and Yucatan take part in the Oaxaca Pact, an agreement launched on Wednesday, August 14, 2019 in Santa Lucía del Camino, Oaxaca, in which, the federal government, along with the state governments and the private initiative, agreed on an agenda to attract investment and create industrial and commercial infrastructure that would translate into greater jobs and GDP growth in the country's South-Southeast.

The four objectives of the Oaxaca Pact are:

1. Supporting popular economy through microenterprises
2. Creating / constructing strategic infrastructure projects
3. Incentivizing the private initiative and promoting foreign direct investment
4. Stimulating foreign trade from the region

As incentives for both national and foreign private investment, as well as for potential companies involved, a simplified scheme for tax payment was offered along with a promise to keep the existing tax rates and the price of energy for 2020.

The businessmen said they plan to produce two million tons of corn, out of the 18 million tons currently imported, contributing to the self-supply of the country. Additionally, the president of the National Agricultural Council (CNA) said that companies such as Danone and Lala will invest up to 2,000 million dollars in the next five years. The aim is to replicate the dairy production basin of the lagoon region in the northern states of Durango and Coahuila.

According to the Secretary of Tourism, in an interview with El Sol de México, the Tehuantepec Isthmus will also have a touristic railroad, constituting the second touristic passenger train within the infrastructure projects of the actual government.

The proposal of the government, in terms of strategic infrastructure projects, is to shift the share of public investment allocated to these states, by assigning 90% to the region, thus reducing 50% of what was allotted to the northern states.

Among the infrastructure projects that are included in the Oaxaca Pact are:

- Highways: Mitla – Tehuantepec and Acayucan – La Ventosa highway networks. The main goal of this projects is to improve connectivity both for firms and local population, benefitting more than a million persons and amounting to an estimated investment of 12,500 million pesos.
- Transisthmic railroad: Interoceanic Multimodal Corridor. This corridor refers to a logistic bridge through land, which will connect the Gulf of Mexico with the Pacific Ocean. The main action within this project is the refurbishing of the railway line between the port cities of Coatzacoalcos and Salina Cruz, with an estimated investment of 3,900 million pesos.

- **Natural gas:** Expansion of the Integrated National Natural Gas Transportation and Storage System, also known as SISTRANGAS, as part of the Transisthmic corridor. This project will optimize the existing infrastructure of the Petróleos Mexicanos (Pemex) pipeline that runs from Nuevo Teapa to Salina Cruz, accounting for 80.1 million pesos.
- **Ports:** modernization of ports in Oaxaca and Veracruz; particularly, the ports of Salina Cruz and Coatzacoalcos, which constitute the end nodes of the transisthmic corridor described above. The estimated investment stands at 2,000 million pesos.
- **Oil refineries:** Dos Bocas refinery and other refineries in the region. The project includes both the refurbishing of refineries in the Southeast, and the construction of the Dos Bocas refinery at Paraiso, Tabasco. The estimated investment is 8,000 million dollars.
- **Mayan Train:** Construction and reconditioning of 1,500 kilometers of railways. Its main objective is the connectivity of cities and touristic routes of the Southeast of Mexico. It will include both a freight and a passenger service and the estimated investment is within the range of 120,000 and 150,000 million pesos.

## Indicators of the South – Southeast (9 states included in the Oaxaca Pact)

The states of Chiapas, Campeche, Guerrero, Oaxaca, Puebla, Quintana Roo, Tabasco, Veracruz and Yucatán amount to 21.2% of the gross value added at the national level (according to estimates up to 2018, based on the Quarterly Index of State Economic Activity (ITAEE)). The equivalent share of GDP would be 20.2%. Moreover, the region contains 28.4% of the total population of Mexico.

Altogether, the states included in the Oaxaca Pact possess a GDP per capita well below the national average (105,420 pesos against 147,819 of the national average). Also, with data from the ENOE<sup>1</sup>, the 9 states represent 26.6% of total national occupation.

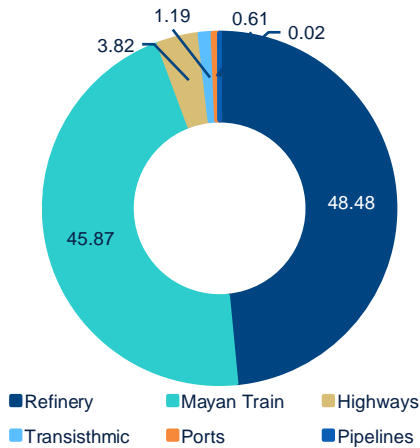
The shares of resources allocated to strategic projects are illustrated in Figure 1. The implementation of the projects described above has a medium and long-term horizon, so a significant change in growth patterns is not expected to occur during the year 2019.

During 2020, a slight shift in growth patterns could be observed, especially in industries such as construction - in particular, public works - if the proposed investments were made. In particular, a strategy to promote and maintain the flow of private investment towards this region is necessary in order to achieve economic spillovers that could both help equate the growth rates of the South - Southeast with the rest of the country.

A climate of political and economic certainty is key to the realization and proper implementation of the Oaxaca Pact, due to its dependence on private investment, both national and foreign.

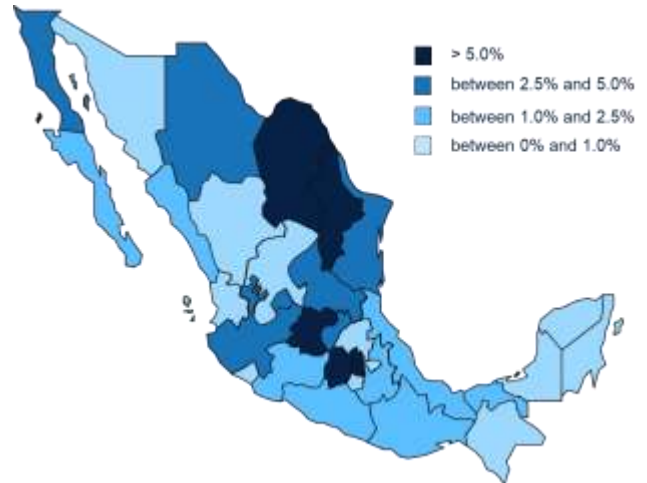
<sup>1</sup> National Occupation and Employment Survey, Inegi.

Figure 1. **SHARE OF RESOURCES BY MAIN INFRASTRUCTURE PROJECT (%)**



Fuente: BBVA Research with data from journalistic sources.

Figure 2. **SHARE OF FOREIGN DIRECT INVESTMENT BY STATE 2018 (%)**



Fuente: BBVA Research with data from the Secretary of Economics.

During 2018, foreign direct investment (FDI) was still directed to the states that make up the manufacturing corridor of Mexico, as well as to the large population centers, as can be seen in figure 2. FDI is one of the variables that the Oaxaca Pact seeks to promote and redirect and, until 2018, a regional lag of the South-Southeast is observed.

The intentions of development of the South and Southeast of the country, with the nine states of the Oaxaca Pact as the main players, require a scenario of stability and confidence for investors that, if generated, could trigger the economic development of the region in the medium or long term. Infrastructure projects continue to be the cornerstone of the development for the South and Southeast. However, it is still unclear where 100% of the resources will be obtained from for the share corresponding to public investment in this regional development project.

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