

The Economic Complexity of Chiapas: Existing Capabilities and Possibilities for Productive Diversification

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Executive summary:

Chiapas is the poorest state in Mexico and the least diversified in its productive structure. According to the findings of this report, that duality is not a casual coincidence. The low economic complexity of Chiapas, measured both by the low sophistication of its exports and the scant diversity of employment, is one of the factors contributing to its low incomes and stagnant growth. Changing Chiapas' growth trajectory will require a transformation in the structure of its production, making it more complex and diverse.

Fortunately, there is significant untapped potential for distinct parts of Chiapas to gradually move toward more complex products and industries based on the knowledge that exists today. Not all places within Chiapas have the same potential; the extreme diversity of productive capabilities that exists across Mexico also occurs within localities in Chiapas, as evidence of the fractal inequality in the country. These findings show that the variance of income levels in the interior of the 9 regions of Chiapas is even larger than the differences across those regions. This characteristic motivates the use of a municipal approach, centered on those urban zones with larger populations and sufficient productive diversification and sophistication so as to justify an analysis of the "adjacent" products and industries that offer gains in complexity and require similar capabilities to those already present. This approach recognizes that the short-term goal for many citizens that do not live around the most sophisticated regions of the state is the possibility of moving gradually toward greater agricultural productivity.

The report identifies the products and industries that offer the greatest potential for productive diversification to improve the economic complexity of the four most complex municipalities in Chiapas, considering their initial capabilities. The report presents a differentiated strategy for the primary opportunities and the barriers that must be overcome to capitalize on each. Comitán de Domínguez should concentrate on resolving logistical barriers associated with longstanding social discontent in order to capitalize on its potential as a high-level tourist destination and to develop a manufacturing base in household articles and textiles. San Cristóbal de las Casas is well positioned to take advantage of its advanced abilities in the production of artisanal handicrafts to transfer those skills to the production of sophisticated hand-made textiles, in addition to new opportunities in metal coatings and food and beverage manufacturing. Realizing the potential of Tuxtla Gutiérrez requires reorienting its broad service sector, which serves the large government sector as the capital of the state, to form a diverse manufacturing base. The primary candidates to mobilize this productive transformation are textiles and leather goods, food processing, and particular categories of production-line machinery.

Of all the regions of Chiapas, Tapachula is the one with the greatest potential to expand its export base towards greater complexity. The region accounts for the majority of the state's exports and has been selected to host the creation of a Special Economic Zone (EEZ) with an industrial park that can handle new, more complex production. The model identifies the potential of plastic products, paints

and films, and metallurgy, watches and welding equipment, as unique opportunities in the state to advance its productive transformation.

The report concludes with a reflection on the need to translate the identification of the potential of each of the regions into a reality—into diverse, complex, and prosperous economies. Productive transformation in Chiapas will begin by improving the agricultural productivity and the creation of opportunities in the urban areas that allow for the agglomeration of diverse capabilities into complex firms. The economic growth of Chiapas does not require innovation, but that the state learns from the rest of Mexico to efficiently produce the goods the rest of the country already makes.

This potential for productive transformation in Chiapas requires the existence of a public sector that is capable of attracting existing firms, and others that operate in other parts of Mexico, to open new production facilities in Chiapas, combining new technologies and capabilities with those already present in the region. In this way, Chiapas can incrementally develop greater density in its productive fabric and economic diversity. Ultimately, the key to capitalize on the enormous potential in Chiapas is in changing its productive discourse to prioritize the diversification of the economy and gradual acquisition of more complex sectors as a tool to promote inclusive growth.