

Innovation Policies for Inclusiveness – Policy Cases

Special Economic Zones

Country: **Mexico**

1. Short Description

The **Special Economic Zones** project aims to foster economic development in four lagging regions of the south of Mexico. The project aims to address the gap between the north and south of the country by deploying significant investments in infrastructure, and by establishing special labour, fiscal and trade conditions to firms establishing in those zones, in order to attract industrial investments.

This policy profile is part of a [policy toolkit on innovation policies for inclusiveness](#). It is relevant for territorial and social inclusiveness.

2. Policy Characteristics

Basic Information

Country and implementing institution(s):	Timeline:
Mexico Ministry of Finance and Public Credit: Federal Authority for the Development of the Special Economic Zones and the Economic Productivity Unit.	2016: Design of tailored measures for each SEZ 2017: Development of infrastructure and efforts to attract firms 2018: SEZs begin operation
Target group	Size and budget:
Regions Four zones in the south of the country that lag significantly behind regions in the north.	Budget: Four recipient zones: The Inter-oceanic corridor on the Isthmus of Tehuantepec (in the states of Veracruz and Oaxaca); Puerto Lázaro Cárdenas (Michoacán and Guerrero); Puerto Chiapas (Chiapas); The Coatzacoalcos-Ciudad del Carmen Corridor (Campeche and Tabasco).



Type of policy instrument(s)	Inclusiveness focus
<p>Financial support: fiscal incentives to firms</p> <p>Non-financial support: streamlined regulations to doing business/foreign trade incentives</p> <p>Investment in public infrastructure: transport, telecommunications and energy infrastructure; health, education and leisure infrastructures</p> <p>Development of innovative human capital agendas and development programmes to support and train the population in those regions</p>	<p>Territorial inclusiveness</p> <p>Social inclusiveness</p>

Policy objectives

The creation of four Special Economic Zones (SEZs) in the southern states of Mexico aims to foster economic development in those regions and ultimately bridge the gap with the north of the country by attracting investment. The attraction of foreign investment is expected to lead to job creation and to an increase in production and trade revenues, thus improving the quality of life of peoples in those regions. It is also expected to promote direct links between the local population and companies within the zones, as well as suppliers outside the zones.

Rationale

There is a significant gap between the north of the country (richer and more industrialised) and the south (more dependent on agriculture and registering the highest poverty rates of the country, with an economy characterised by low complexity and low productivity activities). For this reason, policies are needed to attract more complex and productive industries to the south of the country.

Policy target recipient and selection mechanism

The four areas in Mexico due to be designated as SEZs are: the Inter-oceanic corridor on the **Isthmus of Tehuantepec**, connecting the Pacific Ocean with the Gulf of Mexico and including the municipalities of Coatzacoalcos (Veracruz) and Salina Cruz (Oaxaca); **Puerto Lázaro Cárdenas**, comprising the port's adjacent municipalities of the states of Michoacán and Guerrero; **Puerto Chiapas** (Chiapas); and **Coatzacoalcos-Ciudad del Carmen Corridor** (Campeche and Tabasco).

These areas have been selected for four main reasons:

- The seven states in which these zones are located (Michoacán, Guerrero, Oaxaca, Chiapas, Veracruz, Campeche and Tabasco) lag behind in terms of productivity, and are among those with the highest populations and highest levels of poverty in Mexico.



- The zones have demonstrated potential for a variety of industries.
- The zones are strategically located and present important logistical advantages.
- The states of Campeche and Tabasco are heavily dependent on oil and are highly affected by low oil prices. The SEZ aims at promoting a structural change in the economy, shifting towards a more diversified set of activities with higher productivity.

Policy instrument(s)

- **Tax incentives** are provided for companies investing and creating jobs in those areas.
- **Foreign trade facilities**, such as production and transportation within the SEZs, will benefit from Free Trade Agreements, which provide access to more than 45 countries.
- **Streamlined regulations** to doing business (one-stop shop) and special customs regulations have been implemented.
- **Increased investments have been made in competitive infrastructure**, including in energy, telecommunications and multimodal connectivity with the rest of the country and international markets.
- **Measures have been implemented to increase productivity and efficiency**, in particular to promote innovation, reinforce legal certainty, train workers, and enhance safety and social stability.
- **Measures have been enacted to foster sustainable regional development**, including urban planning and provision of social infrastructures, such as schools, health centres and leisure infrastructures.

Policy challenges

- **Tackling unfavourable contextual conditions:** Unlike other SEZs around the world, Mexico's zones are located in areas with higher concentrations of poor people, with less education and training compared to the national average, and where current conditions are precarious. There is a risk that the population will not accept or integrate with the new firms locating in the region, and will thus remain excluded from economic progress.
- **Having a positive impact on local firms:** Firms establishing in the region will require goods and services, which could be supplied by local firms. However, if these firms bring their own suppliers, this would reduce the potential benefits of the SEZ for local firms.
- **Attracting activities with added value for the region:** To ensure sustainable economic growth, policy makers must design policies to attract firms that will build on existing assets and promote innovation in the region. Such policies should also avoid the attraction of unsustainable activities with low added value. A related challenge is to attract firms that will establish research and development or engineering centres in the regions.



- **Increasing economic diversification:** Some of these regions are highly dependent on specific sectors (e.g. Coatzacoalcos and Salina Cruz rely heavily on the oil sector). It is vital that regions avoid specialisation, as this could lead to economic collapse in the event of an economic shock to the sector in question.
- **Avoiding potentially negative effects on the environment:** Southern Mexico shelters rich ecosystems that could be threatened by the development of infrastructure and certain economic activities, as a result of the establishment of SEZs.

Actions undertaken to address challenges

Complementary policies are being designed and implemented in these zones and their surrounding areas, in order to attract high-quality investments and talent, and achieve sustainable growth. These include policies to improve the human capital endowment through education, improve health services, expand financial services and develop public infrastructure including transport networks.

To reduce unintended consequences on the environment, environmental impact assessments will be conducted on the development of infrastructure and new economic activities in the region.

Measures have already been implemented to:

- adapt educational programmes to future needs;
- identify the “productive vocations” of each region, so as to help determine which types of firms/sectors to attract.

Evaluation and outcomes of the scheme

The plan is yet to be implemented. Preliminary estimates based on international experience indicate that the SEZs will attract around 500 enterprises to the regions, and create more than 150 000 jobs within ten years of operation.

Sources

Harrup, A. (2015), “Mexico to create economic zones to develop poor southern states”, *The Wall Street Journal*, 29 September 2015, www.wsj.com/articles/mexico-to-create-special-economic-zones-to-develop-poor-southern-states-1443568912 (accessed 27 January 2016).

Presidencia de México (2016), “Zonas Económicas Especiales”, Presidencia de México, Mexico City, www.presidencia.gob.mx/zonaseconomicasespeciales/ (accessed 27 January 2016)

Presidencia de México (2016), “Programa de Reactivación Económica y Desarrollo Productivo para Campeche y Tabasco”, Presidencia de México, Mexico City, www.gob.mx/presidencia/articulos/programa-de-reactivacion-economica-y-desarrollo-productivo-para-campeche-y-tabasco (accessed 11 January 2017)

Information provided to the OECD by the Secretaría de Hacienda y Crédito Público, Mexico.



Background

*This document is part of a repository of examples of **innovation policies that have for explicit aim to contribute to territorial, industrial and social inclusiveness**. The repository is part of an innovation policy toolkit developed for the **Innovation for Inclusive Growth** project and gathers national innovation policy programmes that:*

- A.** Explicitly target **lagging and less innovative regions** (outside of regions that are highly innovative) or by design are more likely to support these lagging / less innovative regions.*
- B.** Explicitly aim to include in innovation activities **individuals and groups that are not usually participating** in those activities and in support of broadening the group of innovators.*
- C.** Explicitly aim to foster innovation activities in non-innovative firms, in particular by targeting **non-innovative sectors and non-innovative Small and Medium-sized Enterprises (SMEs)**.*

*Policies are searchable by inclusiveness type, objective and implementation challenge on:
<https://innovationpolicyplatform.org/inclusivetoolkit>*