

**THE MEXICAN AGRICULTURE
IN THE CONTEXT OF NAFTA***

by

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Introduction

I am grateful to the organizers of this important event for the chance to share our views on the Mexican agriculture in the context of NAFTA. The dialogue between producers, processors, government officials and high profile academics will be certainly useful for all. I believe the analysis we are doing in this Seminar on the impact of NAFTA over agriculture should be held on a regular basis.

NAFTA and agriculture: Is the experiment working?

It seems to me it is too early to get an answer based solely on the experience of three years of implementation; specially if we take into account the short run behavior of the agricultural world markets in 1995 and 1996, and the sudden changes in the Mexican macroeconomic conditions, as compared to those prevailing during the previous years. In the second place, for NAFTA to be successful, it is crucial that during the transition period to a Free Trade Area, sound policies with enough resources are in place, if structural deficiencies are to be overcome in the Mexican agriculture.

Free Trade by itself promotes changes in the structure of production, favoring those products with competitive advantages. Nevertheless, this type of adjustment is not feasible in many producing areas; therefore, the need arises regarding the implementation of programs aimed at increasing productivity through non distorting policies. Also, the implementation of welfare programs, aimed at reducing poverty conditions in rural areas and enhancing the ability of farmers to raise income from non agricultural activities, is essential if structural deficiencies are to be reduced. Finally, the success of NAFTA depends on the

political will in our three countries to make the agreement work and stick strictly to the rules.

Large shifts in the pattern of production do not occur easily, specially in Central and Southern Mexico; there are strong cultural ties to the production of maize. Other constraints to crop substitution are water conditions and foreign demand. The role of the government in promoting change in the structure of production is essential, specially in areas of research, extension, and general infrastructure. It is clear that NAFTA by itself has a positive effect in some areas, specially fruits and vegetables, but it would be naive to think that the benefits of NAFTA will spread-out automatically to all farmers.

Foreign investment and joint ventures have to play a key role in order to make the most out of NAFTA. In order to achieve this goal, investors must have absolute certainty that NAFTA rules will hold in the long run and that opportunities of market access won't be closed due to political pressures in any of the three countries.

Moreover, in order to boost investment and joint-ventures, it is absolutely necessary to build confidence between Mexican farmers, American and Canadian traders and agribusiness firms. This type of long-term relationships between industry and producers allows technology transfers and better marketing for agricultural products.

Given the relatively high level of protection that prevailed in Mexico prior to NAFTA (specially in the maize sector) the implementation of NAFTA would have led to a gradual reduction in nominal prices for our producers. What happened in fact is, that due to bad crops in the marketing years 1994/95 and 1995/96 in the largest producer countries, International prices for grains and

oilseeds reached historical peak levels during the last marketing season. In fact, for the new marketing season, prices are again at their average historical levels.

High International prices in the first three quarters of 1996 were also a result of a structural change in consumption patterns in South-East Asia. For the first time since World War II, the importing countries faced the risk of not being able to buy enough grains in the International markets. The question of global food security is still open, but it seems that allowing countries to specialize according to comparative advantages would maximize world output, jointly with other measures that shall be discussed at the binational, regional and multilateral level.

A full analysis of competitiveness shall also take into account the macroeconomic environment. The 1995 devaluation of the Mexican peso was followed by a severe economic crisis. The crisis reflected itself in higher prices, in pesos, for agricultural products, a fact that helped commercial producers to make large profits in those years. On the contrary, high international prices for feed placed the livestock sector in a very difficult position, also because domestic recession set a limit to price increases in final products.

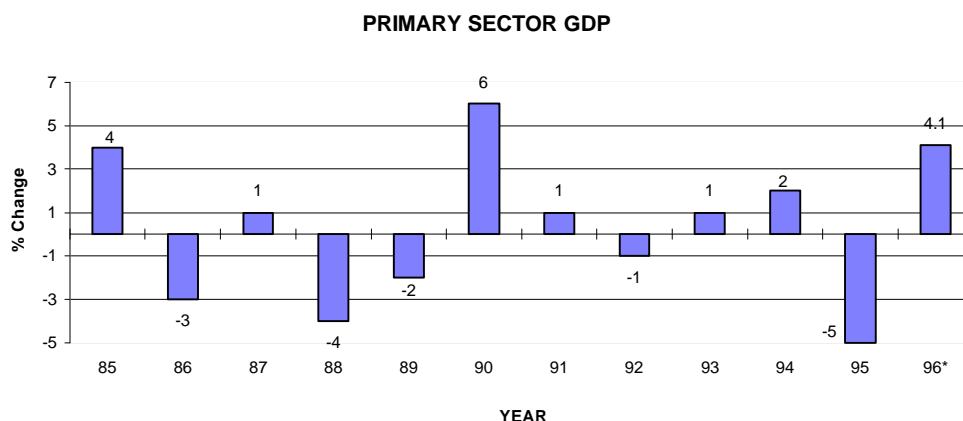
It is extremely important to differentiate the impact of NAFTA on agriculture from the impact of the exchange rate swing, that pushed 114.28% down the value of the peso from \$3.50, in the first week in December 1994, to 7.5 pesos to the dollar in March 1995. Thereafter, increases in input prices and costs of production in general have reduced the margin of devaluation of the Mexican peso. We shall also not ignore the fact that the devaluation pushed to bankruptcy some farmers and livestock producers; moreover, the high level of interest rates is partially eroding the benefits of the devaluation.

The phase out of tariffs for most products was agreed to be in ten years. The average tariff prior to NAFTA was around 12.5 percent; so in three years of implementation, the average cut in tariffs is of 3.75 percent. Therefore the level of the exchange rate is much more important regarding competitiveness than the reduction in tariffs that has been implemented so far. NAFTA shall not be blamed for all of our current problems.

Developments in the first nine months of 1996 confirm that a program of strong fiscal and monetary adjustment, along with far-reaching structural reforms and further market liberalization will ensure a successful turnaround. Mexico will consolidate its economic gains and continue on the path of economic recovery and sustainable growth.

The Performance of Agriculture, 1990 -1996

The agricultural and livestock production in Mexico has been almost stagnant during the last six years, with an average rate of growth of 0.67 per cent. As of June 1996, the annual rate of growth of the agricultural gross production value is estimated in 4.1 per cent; 5.2 per cent for agriculture and 3.2 per cent for the livestock sector. This figures reflect a recovery of agriculture after the bad crops in the previous marketing year due to the drought that affected production in Northern Mexico.



* Estimated
Source: Banco de Mexico

The crop composition has changed little between the years of 1990 and 1995. In 1990, the production of fruits represented 17 per cent from the total agricultural production; in 1994 it represented 18 per cent. The share of vegetables has also increased, but moderately.

According to the gross value of agricultural production, the sectors that did best were cereals (2.3%), vegetables (1.8%) and fruits (2.4%).

AGRICULTURAL GROSS PRODUCTION VALUE
(% Variation)

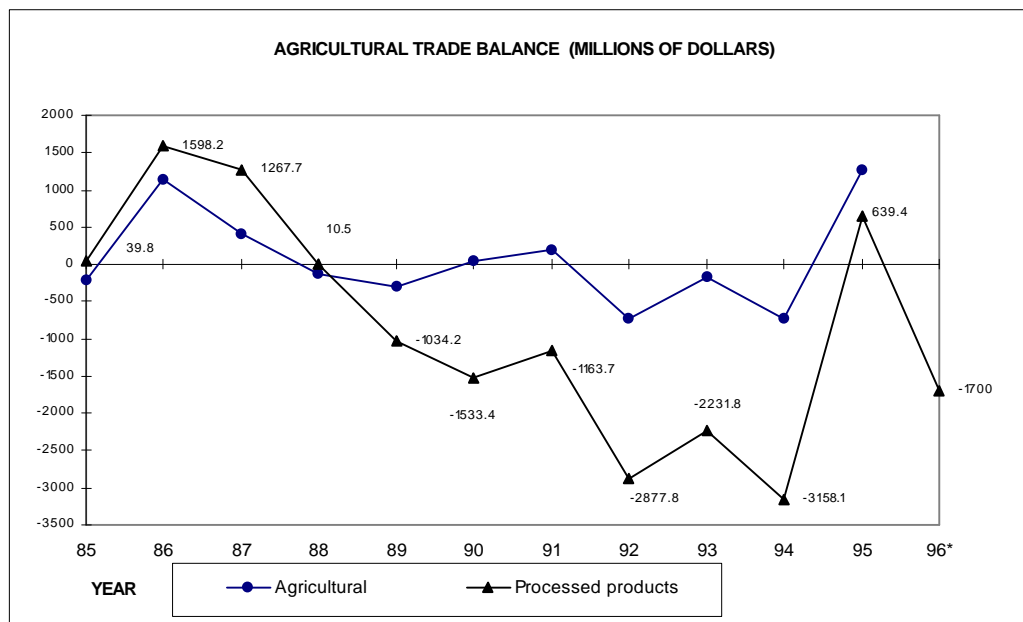
Group	1991/90	1992/91	1993/92	1994/93	1995/94	AARG*/1991-1995
Cereals	-1.4	13.0	4.8	3.6	-7.3	2.3
Oilseeds	7.0	-15.8	-17.2	13.3	11.0	-1.3
Dry pulses	4.0	-43.7	64.4	-4.0	0.0	-1.6
Vegetables	4.2	0.3	4.6	5.9	-5.6	1.8
Tubers and roots	0.5	4.7	-8.5	1.0	5.3	0.5
Fruits	9.8	3.0	0.3	-1.0	0.1	2.4
Processed	-0.2	-11.1	5.5	2.0	2.6	-0.4
Feed	-6.0	15.9	-12.9	5.0	2.5	0.4
Ornamentals	2.0	18.9	-19.0	8.0	2.1	1.6
Medicinal species	-0.7	-1.3	5.0	36.1	-21.2	2.0
Other	4.3	-90.4	763.9	-10.9	0.1	-5.0
Total	1.5	-1.0	4.6	2.4	-2.0	1.1

*/ Annual Average Rate of Growth.
Source: Agriculture Statistics Center (SAGAR)

In 1996, the agricultural trade balance is expected to show a deficit of 1.7 billion; while in 1995 a surplus of 0.6 billion was observed. The swing from surplus to deficit reflects, in 1996, high International prices and higher volume of

imports of grains, associated with the drought that reduced production of several crops.

From the period 1985-1996, there is sound evidence that the agricultural trade balance has been very sensitive to the exchange rate movements. When the exchange rate is competitive, a surplus has been generated.



* Estimated
Source: Banco de Mexico

It is important to have in mind that the main exports from Mexico to the US have increased from 1.6 billion dollars in 1990 to 2.6 billion dollars in 1995 and it is expected 3 billion dollars in 1996. Tomatoes, coffee, beer, peppers, mangoes and orange juice are some of the main exported products (see annex tables). Significantly, it is observed a high degree of diversification in our

exports if we analyze the tariff schedule line by line. We find export diversification in fresh products and Processed Foods.

Structural Adjustment of the Mexican Agriculture

Since the late eighties, Mexican agriculture went through a period of reforms, in order to strengthen agricultural production in the country and reach higher standards of living and social welfare among the rural population. Over the last 8 years, many important measures have been adopted in order to reach these objectives.

Trade liberalization, elimination of subsidies to inputs; the divestiture of the government in the farm sector, and the deregulation of export controls (in coffee, tobacco, and vegetables) are some of the main reforms. Moreover, changes in the land tenure system, specifically in Article 27 of the Constitution, allow now the ejidatarios to decide what to do with their land (rent, sale, and joint ventures).

The PROCAMPO program which consist of direct payments to producers on a per hectare basis was introduced in 1993 to compensate producers for the expected fall in prices due to NAFTA. Payments will remain fixed in real terms for the next 13 years. After the inauguration of President Zedillo's administration, a comprehensive set of programs called "Alianza para el Campo" was launched in order to increase the profitability of Mexican farms by improving the physical infrastructure of the agricultural sector. These programs will develop rural roads, storing facilities; will promote the efficient use of water

and dams, better seeds, equipment and special programs to promote the genetic characteristics of our livestock among others.

Moreover, research and extension are crucially important. By OECD standards, Mexico has a serious problem of under investment in this area; public and private investment in agricultural research accounts for less than 1 per cent of agricultural GDP compared with 3 per cent in OECD countries. Not surprisingly, centrally managed research and extension programs in the past have failed, due to the federal bureaucrats lack of knowledge of the priorities in each region of the country. Significant resources of the Alianza program will be devoted to this area.

Almost all of the Alianza programs will operate at the local level, and were designed to meet the requirements of the different types of producers we have in Mexico.

In our country there are 3.5 million producers including: large commercial farmers, small commercial farmers, farmers who produce for self consumption (almost 3 million), and landless rural workers. The challenge for President Zedillo's administration is to balance adequately the needs of all groups of farmers and rural workers.

In a country in which 27 per cent of the population lives in rural areas, and generates only 7 per cent of GDP, what shall it be our main measure or success or failure of the current policies of globalization in which NAFTA plays a part? How shall we measure success or failure in a country where the majority of our farmers earn less than 30 per cent of their income from agriculture and 70 per cent from other non-agricultural activities? The aim is to increase agricultural production at a higher rate than population growth; nevertheless, we must

recognize that to alleviate poverty conditions in rural areas we need to create more employment in non-agricultural activities; therefore, agriculture shall be adequately linked to the rest of the economy.

To raise efficiency in the economy as a whole, it is important that food processors face International prices in primary products. If agricultural activities might be profitable at international prices and the constraint is physical infrastructure, research or extension, then we shall invest more in these areas. On the other hand, if small plots of land will never be competitive at international prices, then we shall focus more on the well-being of the rural inhabitants; including better health assistance, better education, food aid programs and better agricultural practices, not aimed as the main source of family income, but as an important complement for family well-being. Education is a crucial factor to enhance the ability of rural inhabitants to move into better paid activities in other areas of the economy.

Overcoming Trade disputes in the context of NAFTA

Based on the experience of three years of implementation of NAFTA, we must say that its success depends on the political will in our three countries to make NAFTA work. We must work closely together in order to solve all the trade problems that existed prior to the instrumentation of NAFTA, and to sort out the new problems that have arisen in the last three years. The NAFTA Committees and Working Groups have solved some problems related to phytosanitary measures, but in many cases the progress has been slow. The recognition of free areas of pest and diseases is still yet a major short-coming in the implementation of NAFTA.

The technical work made by USDA and the Mexican authorities in order to eliminate sanitary and phytosanitary measures has been constant and deserves a recognition; nevertheless, we still need to finalize this difficult tasks in order to make NAFTA a success in the promotion of trade. Otherwise, producers are considering that free trade is running only in one direction. I am also grateful that the so called “tomato war” will be carefully addressed in this seminar.

ANNEX TABLES

TABLE 1
(US) MAIN PRODUCTS IMPORTED FROM MEXICO
Thousands of Dollars

Product	1990	1995	Var % 95/90
Cherry Tomato, fresh or ch.	428,371	565,143	31.93
Live bovine animals	344,737	534,451	55.03
Coffee not roasted	275,206	296,697	7.81
Peppers bell	123,941	183,177	47.79
Pumpkin		134,211	
Cucumbers fresh or ch.	66,083	121,977	84.58
Cotton		83,803	
Mangoes	24,794	79,370	220.11
Orange juice		68,061	
Grapes fresh	10,428	65,006	523.35
Melons fresh	70,626	59,921	-15.16
Watermelon fresh	19,692	48,151	144.52
Coffee decaffeinated	26,372	44,159	67.45
Asparagus	21,467	40,120	86.90
Other peppers	4,832	36,245	650.15
Walnuts in shell	19,706	32,359	64.21
Eggplants	20,221	31,708	56.81
Durum wheat	4	31,473	786,737.45
Bananas	39,877	30,604	-23.25
Lemons (Cit. limon, limonum)	8,817	29,044	229.43
Pickles, fresh or chilled	13,531	26,108	92.95
Carrots and turnips	3,264	14,761	352.18
Beans (Vigna spp., phas.)	17,090	13,392	-21.64
Papaws fresh	704	10,236	1,353.71
Avocados	3,873	5,346	38.04
Honey	6,134	3,228	-47.38
Beer		2,723	
TOTAL	1,549,769	2,591,473	67.22

Source: SECOFI (SICMEX)

TABLE 2
(MEXICO) MAIN PRODUCTS IMPORTED FROM U.S.
Thousands of Dollars

Product	1990	1995	Var% 95/90
Soya beans		507,434	
Other maize	9,940	351,513	3,436.42
Sorghum grain	328,749	254,400	-22.62
Cotton		199,296	
Beef fresh or chilled bonelees	1,848	71,580	3,772.56
Rice in the husk		51,720	
Apples fresh	2,990	49,407	1,552.58
Husked (brown) rice	30,160	22,959	-23.88
Beef chilled or frozen	7,660	19,095	149.28
Ground-nuts shelled		17,692	
Pears fresh	12,140	16,701	37.58
Maize seed	402,946	14,780	-96.33
Barley in grain	22,398	13,181	-41.15
Grapes fresh	677	12,191	1,701.77
Other hams	10,360	11,828	14.17
Other cereals (maize)		10,541	
Beef fresh or chilled other cuts		7,984	
Other hams, shoulders and cuts		5,737	
Hams, shoulders and cuts, with bone	14,427	5,462	-62.14
Beef frozen, other cuts	7,660	3,688	-51.86
Frozen hams, shoulders and cuts	651	3,104	377.09
Pork frozen carcasses and half carcasses	1,515	2,910	92.02
Sheep or goats fresh or chilled, other cuts	2,266	2,381	5.07
Other tomatoes, fresh	1,267	1,921	51.62
Tomatoes fresh or chilled "Cherry"	2,736	73	-97.34
Sheep or goats fresh or chil., carcasses	2,984	46	-98.47
Pork frozen, carcasses and half carcasses	980	3	-99.68
Live bovine animals and other	49,388	25,770	-47.82
Milk powder	86,142	75,067	-12.86
Other oils		104,350	
Sugar	5,829	2,122	-63.60
Food Preparations	8,290	28,322	241.64
TOTAL	1,014,002	1,893,253	86.71

Source: SECOFI (SICMEX)

TABLE 3
(CANADA) MAIN PRODUCTS IMPORTED FROM MEXICO
Thousands of Dollars

Product	1990	1995	Var % 95/90
Mangoes	1,282	7,411	477.90
Orange juice		4161.9	
Coffee not roasted	58	2,784	4,691.95
Avocados	688	1,552	125.78
Carrots and turnips		363	
Beer		318.5	
Honey		313.9	
Cucumbers fresh or ch.	16	300	1,811.95
Pumpkin		234	
Bananas		136	
Tomatoes, fresh or ch.	0	76	18,274.52
Melons fresh		51	
Papaws fresh		44	
Eggplants	7	33	361.53
Other peppers	9	19	122.89
Peppers bell	18	7	-63.08
Pickles, fresh or chilled		4	
Lemons (C.limonum)	8	1	-83.78
TOTAL	2,087	17,811	753.58

Source: SECOFI (SICMEX)

TABLE 4
(MEXICO) MAIN PRODUCTS IMPORTED FROM CANADA
Thousands of Dollars

Product	1990	1995	Var% 95/90
Milk powder	13357	38,106	185
Live bovine animals	9,313	4,365	-53
Pork, fresh or chilled other		1,246	
Pork, fresh or frozen		962	
Beef frozen		782	
Beef Boneless	40	634	1,495
Hams, shoulders and cuts	513	127	-75
Hams, shoulders and cuts with bone	1,011	78	-92
Food preparations		70	
Pork frozen		51	
Maize seed		44	
Apples fresh		12	
Beef other cuts		8	
Husked (brown) rice	39	0	
TOTAL	24,273	46,484	92

Source: SECOFI (SICMEX)