Agriculture and the free trade agreement

*Felipe Torres Torres**
*Javier Delgadillo Macías***

As in all negotiations between unequal parties, in the case of Mexico's agricultural sector two different, although not necessarily substantiated positions propound reasons for including or excluding it from the North American Free Trade Agreement (NAFTA) with the United States and Canada.

The position defending inclusion in the NAFTA, held mainly by officials not directly involved in rural problems, maintains that Mexican producers have the capacity to face foreign competition. Cited especially are cattle production and crops such as fruits and vegetables, traditionally related to international markets.

Moreover, they point out, in sectors such as basic grains and fodder, that show a depression so serious that not even present internal demand can be supplied, the NAFTA will provide an excellent opportunity to revitalize production patterns, reverse aspects of dependency and even gain foreign markets.

Permeating this proposal is the reappraisal of land tenure, inasmuch as it considers the *ejido*, a system which came out of the Mexican Revolution, as an obsolete productive unit incapable of withstanding economies of scale. The *ejidos* remain so impoverished and dispersed that only with great difficulty could they aspire to production levels required by the new market conditions. Thus the sale and/or rental of *ejido* parcels to make investment attractive to domestic or foreign agro-businesses has now been legalized.

On the other hand, the old idea of comparative advantage is re-examined and readapted in terms of what it means to buy and sell within a competitive scheme including agricultural systems very different in production volume, technological level, organizational capacity, and so on.

This first position does not consider reinforcing the structure of domestic production, nor does it justify the use of protectionist mechanisms to balance such differences; it simply proposes to open the market independently of later repercussions.

The other proposal, which paradoxically also has strong official support, is based on reconsidering the importance of recovering domestic food self-sufficiency. This possibility is unattainable if at the outset smallholders producing rainy-season corn and beans and, lacking the capacity to confront huge world-wide grain producers, are forced into an internationally structured competitive scheme.

It is here that current official efforts to protect domestic producers become evident, inasmuch as international prices of basic products, for example corn, rice, wheat and sorghum, are almost half the guaranteed domestic prices. This is a result of production costs that are way below Mexico's, and products that come from countries with high levels of protection for agriculture.

This proposal includes re-adapting the *ejido* to new production and world market conditions, where the Mexican government should assume its historic responsibility of financing agriculture and guaranteeing the food supply of the economically most disadvantaged.

Mexican agriculture faces the free trade agreement with two positions: Join –Mexico can compete in cattle, fruits and vegetables; existing inadequate production in grains will be stimulated. Hold off– Mexico must regain agricultural self-sufficiency through ejido reform, new investment, modern technology and higher production.

* Researcher, Primary Sector and Agricultural Economics Area, IIE, UNAM.
** Researcher, Regional and Urban Development Area, IIE, UNAM.

The proposal, in short, is to put off opening the sector and to reappraise the policies that aggravated Mexico's agricultural crisis. Though it presents a nationalistic perspective for the future of the agricultural sector, it contains the weakest arguments in terms of the NAFTA negotiations.

Furthermore, the Mexican government seems unwilling to give massive aid to agriculture. First, because it has decided to abandon what it considers the paternalistic criteria that formerly inspired agricultural policy. Second, because the exercise of budgetary discipline imposed by external financial commitments makes the massive sums of capital required by the magnitude of the agricultural problem unavailable. And third, because it is contrary to free enterprise, which opposes regulatory mechanisms for both domestic and foreign capital which require the disappearance of state monopolies as a condition for investment.

More evidence of its weakness is that at least for the past year, the proposal has been widely outdone by inescapable market reality: the domestic supply system is flooded with foreign agricultural goods brought into the country through commercial triangulations between transnational companies whose position will be reinforced by the NAFTA.

This is borne out by the appearance of exotic fruits from China, Thailand, New Zealand, Chile, India and even Europe; vegetables from the United States and Central America; Oriental and South American spices and even chili peppers from Japan and China.

The most generous conditions now exist for importing all these products by authorized domestic agencies, even for medium-size merchants, but all this leads to dismantling the domestic production structure and a renewed tendency to become a captive consumer market with short term economic and political costs.

Grains (mainly corn and beans) are a separate subject; what we are trying to do now is to call attention to what are supposedly our strong points in an open market.

Which is the best alternative? In our opinion, neither proposal offers the possibility of confronting the challenges of foreign competition, not even in Mexico's domestic market. They are not based on objective analysis of the real situation in the countryside on terms comparable to the two strongest agricultural producers in the world, unless the idea is basically a model for integration and not for complementary relations between the three countries.

It seems, however, that there is no way to go, for two reasons. First, neither the government nor domestic businessmen show any real ability to "save" this sector from current international penetration. And second, we cannot imagine the agricultural sector outside the NAFTA, while all other sectors, even including segments of education, technological development and copyrights, are in it.

"Depressed sectors can be revitalized and dependency reversed"

It should be noted that firms like Pioneer and Northrup King, which were seriously affected by the present recession in the international grain market resulting from a drop in Latin American (including Mexican) production, are the same firms pressing for inclusion of this sector in the agreement. They would thus be assured unrestricted access to domestic germ plasma and could increase their sales through an assured imposition of the U.S. production model, based on intensive systems with standards for homogeneity and specific product characteristics theoretically aimed at satisfying a unique and demanding market.

At the same time, in view of the dynamics of events, it seems that to join or not to join is a sterile discussion. It is evident that the NAFTA merely legitimizes a current and predetermined reality in the U.S. agricultural sector, but with Canada included.

Actually, its goals are to abolish the few tariff barriers against U.S. products, legalize direct investments which would eliminate outmoded contract farming, permit the buying

Irrigated bean fields.


Mechanized harvesting.

and selling of land, and take advantage of crop and labor location, locally hiring the *braceros* who by migrating, could formerly earn up to seven times more by simply crossing the border. World-wide technological control over agriculture would also overcome European arrogance and Chinese mysticism, since the remaining agricultures don't count because they are either one-crop or are insufficiently developed.

In any case, what NAFTA boils down to for this sector is competition between United States and Canadian firms, where Mexico is only a combat zone. Or, from another angle, world-wide marketing organizations will be able to sell products from any part of the world in Mexico, with no tariff barriers or payments for "seller's rights", and without the source of production being precisely within the countries that signed the agreement.

Several factors favor the assumption that things will not happen in any other way. At present, the U.S. has sufficient capacity to flood the world market with practically any agricultural product, whether produced in the U. S. or not, by simply using triangulation schemes, or by employing sophisticated stock-exchange mechanisms.

On the other hand, the U.S. enjoys an added market advantage from current reordering and reopening of diverse regions of the world that have disjointed production structures, specifically the countries of the former Eastern bloc. Canada also enjoys the opportunity, although on a more restricted level, to expand its markets without having to withstand stormy discussions before signing the NAFTA.

The key point is what these countries expect when they sign an agreement with Mexico. The question could have several answers (political, market, natural resources, etc.). But everything seems to indicate that what is being sought are more flexible mechanisms to benefit from the advantages investments from the north have traditionally enjoyed in the Mexican countryside. Included are natural resources, germ plasm in particular, to obtain new varieties, and the laborers themselves, who are faced with the prospect of losing their land with no alternative source of employment. It is to be presumed that the same advantages will exist for domestic investors, but this leads to an even simpler question: Who holds the keys to the lock?

Some examples illustrate this better than futuristic speculation. In the case of sorghum, the United States has lowered its production from 25 million tons (half of world production) to less than 15 million tons at a time when demand is constantly increasing, mainly due to new agreements with the countries of the former USSR regarding economic cooperation, where the supply of fodder rations will certainly be considered. A major percentage of growing European demand is supplied by the United States, while Argentina, another important producer, has practically disappeared from the world market.

In this situation Mexico would not be driven out of the domestic sorghum market by the United States; moreover in view of present domestic production deficits, an excellent opportunity may exist to increase volume and even to export. This would also check the looming threat of Mexican beans, corn and rice being overwhelmed, and would afford an opportunity to fully utilize marginal agricultural areas.

“Restructure the ejido permitting sale or rental of land to attract investment”

The huge bottleneck for domestic sorghum, however, is that the greater part of seed stock for planting must be imported, representing the largest percentage of production costs. Given these conditions, only large U.S. contractors would be in a position to take advantage of such marginal areas, because no aid program is envisioned by the Mexican government. In other words, the sorghum that is not produced in the United States would be produced here, but without any benefit to Mexico.

Wheat is in a similar situation, although with other peculiarities. Production in Sonora and Baja

California is supposed to be sufficiently competitive, based on yields per hectare and harvested volume when compared to the U.S. and Canada, and should therefore be stimulated and protected. However, faced with the need to satisfy the domestic demand for corn, those responsible for Mexican agricultural policy are reconverting areas to corn production that were originally in wheat. This would leave the door open to wheat from the United States in years to come and put the future of domestic wheat in serious doubt.

There isn't even a remote possibility of competing in corn, beans and rice. United States production costs are half of Mexico's for corn, as mentioned above, and even if Mexico required only white corn, production of which is limited in the U.S. and Canada, they would immediately be able to satisfy the demand.

In spite of import controls on beans, widespread small-scale smuggling exists which affects internal prices and currently threatens bankruptcy for domestic producers and marketers.

Canadian rice production costs are a fifth of Mexico's, and if this were not enough, the advantages Mexico formerly had in fruits and vegetables thanks to a stable climate in the northwestern part of the country are now reduced, due to technological advances by growers in California and Florida.

Meat is not even worth mentioning because, as some point out, Mexico's production would not even cover the requirements of one week's consumption in the United States. Mexico is a chronic importer of milk and its byproducts, as well as oilseeds, eggs and other products.

A reaper in operation.

The fishing industry is shown to be constantly under pressure for different reasons, either ecological or sanitary. All this caused the agricultural trade balance deficit to grow 33.03 percent in the last year.

In no way should this be interpreted as a fatalistic view of including the agricultural sector in the NAFTA -what's more, it is already included through the in-bond agro-contract system. What we recommend in any case is greater restraint regarding the subjects included and how they are considered in the negotiations.

"Recovery of domestic self-sufficiency in food production"

In our view, what seems most viable is to protect the sector by leaving it out of the initial NAFTA negotiations for at least 10 years. That would allow the development of a scientific and technological infrastructure and the social conditions for domestic production which would permit a balance between our infrastructure, production, costs and yields, and those in the U. S. and Canada.

To this end, the government, agro-business and farm workers could coincide in a short and medium-term program seeking to rescue the foods and the productivity of the domestic agriculture sector.

It is unreasonable to force the entire agricultural sector into a no-holds-barred competitive system with two of the world's major food producers, especially in the area of basic grains. For example, about three million Mexicans depend on corn production, and would be literally left "high and dry" when faced by the profound differences in production costs and prices compared to the United States.

How, and with what, is Mexico competing? What is the domestic technological level compared to her neighbors' computerized cattle and foodstuff production? What capacity do domestic businessmen have to re-capitalize the countryside when confronted by rearranged international capital that is currently at work in different regions of Mexico through the above mentioned agro-contract system? Can the Mexican government under the NAFTA scheme once again be the force that drives agricultural development and makes it competitive?

The view is not clear, but in this case it is better to follow the turtle's strategy rather than to be beaten before the race starts VM