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U.S.—MEXICO AGRICULTURAL TRADE AND RURAL POVERTY IN MEXICO

by
JOHN BURSTEIN



ABOUT THE AUTHOR

John N. Burstein is President of Foro para el Desarrollo Sustentable, A.C., a civil society organization that provides professional services to Mexican rural producer groups and conducts citizen monitoring of national and international social and environmental programs. Burstein has conducted research on issues of sustainable development and governance for the Inter-American Development Bank and private institutions of international assistance. He has written on environmental services and agriculture, trade and migration, and U.S.-Mexican relations. He served as facilitator for the Task Force on U.S.-Mexico Agricultural Cooperation.



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Report from a Task Force Convened by the
Woodrow Wilson Center's Mexico Institute
and Fundación IDEA

April 13, 2007

The Mexico Institute at the Woodrow Wilson Center invited experts from Mexico and the United States to discuss the emerging issue of agricultural policy on 13 April 2007 at a conference entitled “U.S.-Mexico Agricultural Cooperation: Challenges within NAFTA. Participants came from the academic community, both governments, the multilateral banks, and from farmers’ organizations in Mexico and the United States. To stimulate creative thinking, it was agreed that no consensus would be sought, but that invited speakers would offer the results of their research and experience and debate key issues in the link between agricultural trade and development. This report summarizes the flow of the discussion during both the public and closed-door sessions of the conference. The opinions expressed by the author do not reflect official positions of the Woodrow Wilson Center, its Mexico Institute, or Fundación IDEA.



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Agriculture, Trade, and Development: An Overview

The North American Free Trade Agreement (NAFTA) was signed in 1992 by Mexico, the United States and Canada. The Agreement has been phased in during a 14-year implementation process beginning in 1994. In January 2008 the remaining agricultural tariffs – on corn, beans, sugar, powdered milk and other products – are scheduled to be eliminated. Policymakers who follow the process of integration of the North American agricultural and food sector differ in their projections of the effects of trade liberalization in the short and long term. All agree that it is time to take a new look at the sector.

Rural poverty is one of the major reasons for the significant development gap between Mexico and the United States and one of the principal “push-factors” in Mexican migration to the United States. Furthermore, the persistence of rural poverty strains the social fabric, at a moment when the Mexican political system is more fragile than it has been in the recent past. Finally, the array of rural production systems is threatening the sustainability of Mexico’s natural resource base. For all these reasons, agricultural policy and the effects of bilateral integration of the agri-food industry are important for policymakers.

All wish that small-scale producers prosper, which usually means entering the formal economy and, sometimes, export markets. However, there are several reasons why most small-scale farmers regard the transition to export agriculture as risky or impractical. They have limited access to infrastructure, credit, or appropriate technology to achieve competitiveness in the liberalized agricultural markets. Public investment in the sector, deemed inefficient, was dismantled in the 1990s and never fully replaced by innovative alternatives. Overall small-scale farmers have gained in targeted welfare programs but lost in productive investment. On balance, a large number of asset-poor rural households prefer the relative security of the possession of a plot of land and the option to experiment, at the margin, with economic diversification in higher-value agricultural or non-farm products and services.

Keynote speaker Alain de Janvry discussed the World Bank’s *World Development Report* 2008, which examines agriculture as a tool for development. For countries like Mexico, with relatively high levels of rural poverty that have not declined concurrently with national economic growth, national governments should consider agriculture’s potential contribution to aggregate growth. Public and private investment opportunities may emerge from increasingly dynamic local markets, a new generation of low-input technologies, and growing demand for global public goods (including environmental services). He noted that investments targeted at small farmers are considered by some to be the most cost-effective instrument for reducing poverty, while failing to make these investments creates a drag on the economy overall. This is particularly true when environmental externalities – such as soil erosion, and biodiversity loss, including from excessive monoculture – are internalized in the economic modeling.

The complete liberalization of corn and beans, pending in 2008, worries many small farmers as well as some international economists. They fear that if U.S. and Canadian corn and beans have a lower sale price, they will flood the Mexican market, thus reducing options even further for the roughly 15% of the population that still depends, at least in part, on selling their excess production of corn in local markets. There is also concern that U.S. farmers could plant more white corn and export it to Mexico where it is used for tortillas, or that yellow corn, now mostly used for animal feed, may substitute for white corn in tortillas, both delivering negative impacts to small farmers. For many small-scale producers, the underlying issue is that U.S. agricultural producers are more highly subsidized and have an unfair advantage in binational agricultural trade.

Leaders of Mexican and U.S. farmers' organizations, as well as some researchers, describe a crisis brewing among small-scale farmers. Free trade in corn and other commodities, coupled with the drop in public investments in small-scale agriculture, have reduced farm income, which has been devastating for as many as three million small producers, according to Victor Suárez, president of a national small producers' organization. Katherine Ozer, director of the National Family Farm Coalition seconded this concern and noted that even most U.S. family farmers benefit little from farm subsidies or expanded agricultural exports. Representatives of both the Mexican and U.S. producer organizations underlined the importance of refashioning agricultural policies to ensure food security.

Government representatives from both the United States and Mexico noted that their governments were committed to keeping to the timetables established in NAFTA and that the agreement was not open to renegotiation. They emphasized that NAFTA's liberalization of corn and bean trade is very far along, and doubted that the last step of this process would have substantive impact. Moreover, they stressed that reopening NAFTA would expose both governments to pressure from protectionist interests, without necessarily leading to a reduction in rural poverty. However, other panelists argued that measures to delay implementation of these provisions are possible even while adhering to the present operational procedures of NAFTA and other international agreements. Tim Wise noted that the Mexican government might join the Canadian claim of dumping against U.S. corn producers currently before the World Trade Organization, or apply the Cartagena Protocol concerning biodiversity and environmental protection.

Public policy to promote development of Mexico's rural sector must be multipronged. Both the Inter-American Development Bank and the World Bank are interested in creating further incentives for directing remittances to productive activities in rural communities. An example is the Mexican government's "Three for One" Program that matches migrant organizations' public investments. Development specialists also urge experimenting with loans intended to improve local and regional, and not only export, markets. This takes the form of accessible credit, technical assistance, revenue insurance programs, and social investment, including educational reform for youth likely to seek non-farm employment. Additional approaches include accessing niche markets for organic and other "green" products. Finally, issues of governance are also important for the success of rural development, including adequate decentralization, and empowering visionary state ministries.

Several participants raised concerns that the former public-sector monopolies for purchasing agricultural products have been replaced by private sector oligopolies. While the Mexican government used to purchase grain production, a handful of large private companies now dominate these markets. The advantages of reaching economies of scale may now be outweighed by the inefficiencies of limited competition at this stage in the restructuring of the markets in corn and other foodstuffs.

In the United States, the debate on the 2007 Farm Bill opened consideration for developing a crop-price insurance system that could eventually replace production subsidies, in order to stabilize the market and ensure profit margins while eliminating trade-distorting subsidies. Public programs that base payments on total acreage are clearly regressive, and unusually high income caps defeat the purpose of helping small farmers. Small-farmer organizations in both countries also suggested an approach of basic-food sovereignty, with the creation of grain reserves, after the manner of oil reserves in the United States.

Agricultural policy is increasingly politicized in both countries. Trade disputes have sometimes risen to such importance that they appear to stretch the capacity of the administrative bodies overseeing NAFTA. In an earlier implementation phase, phytosanitary norms to keep out tomatoes and avocados sparked protests from Mexican producers, and the recently arbitrated U.S. delay in opening truck transport to Mexican providers was roundly condemned in the press. Mexican legal restrictions on the importation of genetically modified organisms still displease U.S. companies, while the inflow of foods with transgenetic ingredients is a focus of protest of the Mexican consumer-rights movement. Given the growing interface of agriculture with issues as diverse as trade, immigration, and energy, policy decision-making could profit from greater inter-departmental coordination, as well as more agile binational cooperation and integration.

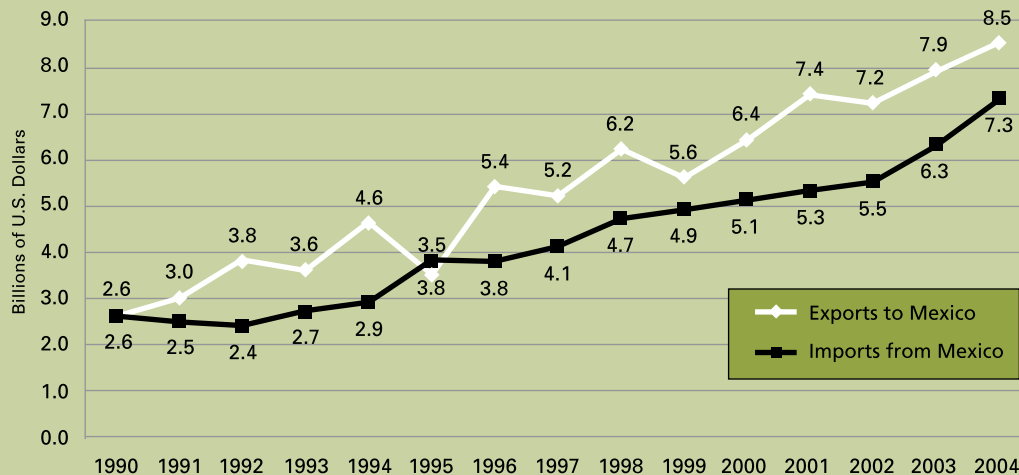
ASOCIACIÓN NACIONAL DE EMPRESAS COMERCIALIZADORAS DE PRODUCTORES DEL CAMPO, A.C. (ANEC)

The National Association of Farmer Commercial Enterprises is a second-tier federation, bringing together some 200 small-scale farmers' organizations throughout Mexico. ANEC was founded in 1995, as poorer farmers faced the withdrawal of government support for the sector and divestment of its warehousing and transport system. ANEC facilitated the purchase of these capital goods by farmer cooperatives which can reach economies of scale to compete in internationalized markets and replace middlemen in local markets. For example, with recent prices hikes, ANEC organic-quality tortillas competitively sell in low-income barrios of Mexico City. In Mexico's charged debate on agriculture, ANEC is a leader among the confederation of farmers' organizations, and has a voice in negotiation with government ministries and in congressional public policy making.

Agricultural Trade

The North American Free Trade Agreement has had enormous impact on the agricultural sector. Agricultural trade has tripled during the implementation period of the NAFTA, with the United States showing a positive trade balance.

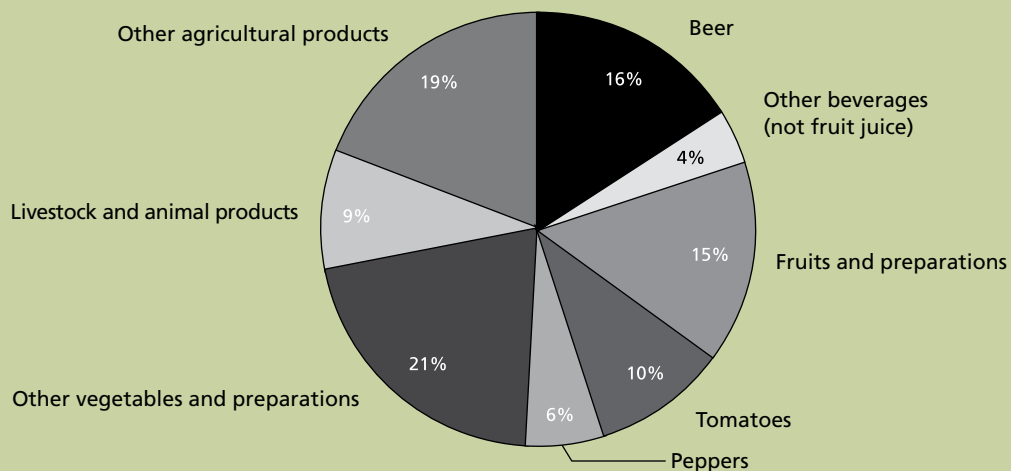
U.S. - MEXICO AGRICULTURAL TRADE



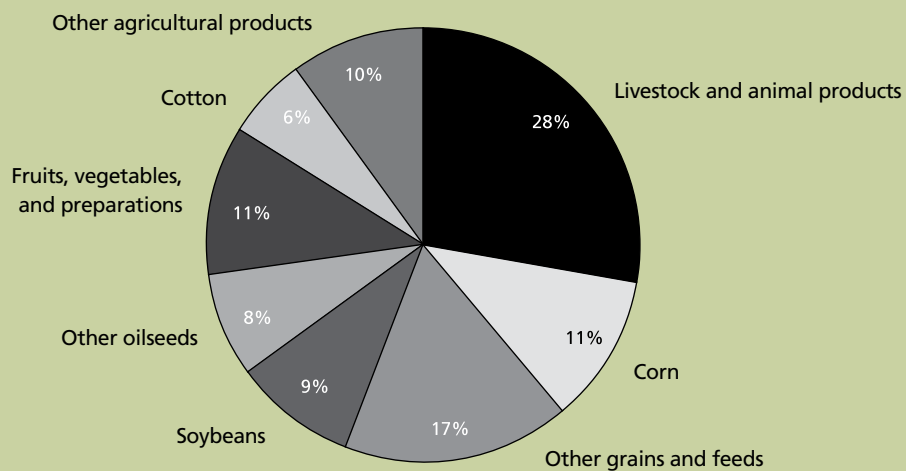
Source: U.S. Department of Agriculture, Foreign Agricultural Service, *U.S. Trade Internet System*, cited in Steven Zahniser, *NAFTA at 13: Implementation Nears Completion*, U.S. Department of Agriculture, Economic Research Service, Outlook Report No. WRS-0701, March 2007.

Comparative advantage has affected the structure of the agricultural and food sector. Mexico has increased fruit and vegetable exports to the United States and U.S. exports of grain and animal products have grown. Some Mexican processed foods – especially high-grade beer – have conquered a sizeable niche in the U.S. market. In mirror fashion, U.S. processed foods are also more widely distributed in Mexico, aided by the rapid extension of the Mexican supermarket distribution system, benefiting from U.S. capitalization.

MEXICAN AGRICULTURAL EXPORTS TO THE U.S.



U.S. AGRICULTURAL EXPORTS TO MEXICO



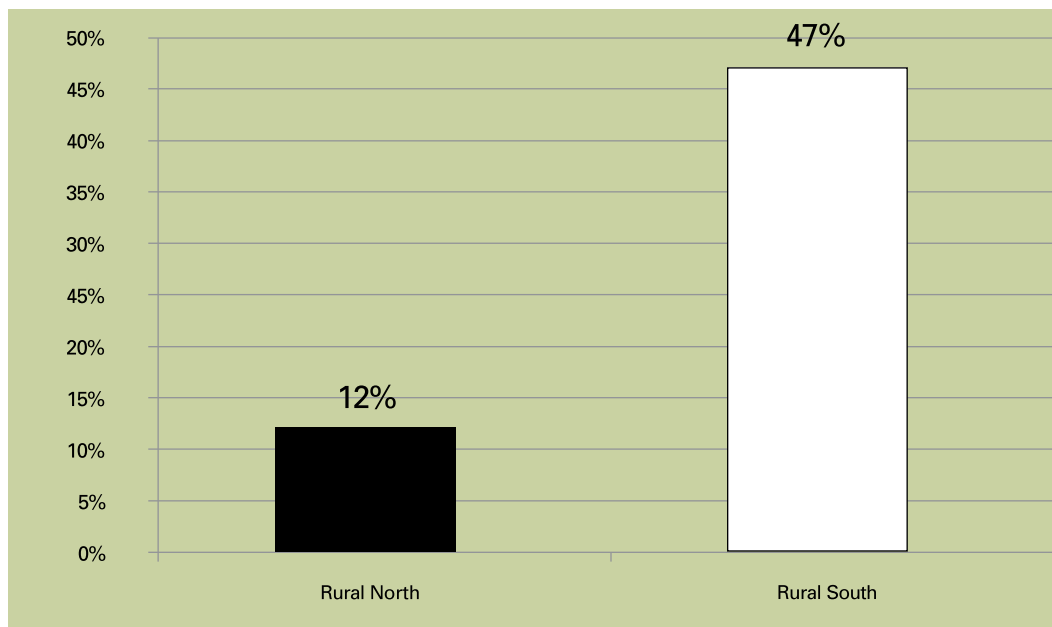
Both graphs from Steven Zahniser, "U.S.-Mexico Agricultural Trade during the NAFTA Era," January 23, 2006, Paper presented at the conference, Doha, NAFTA, and California Agriculture, Giannini Foundation, http://giannini.ucop.edu/NAFTA_Agenda.htm.

Rural Poverty and Migration

The rural population is increasingly segmented between a small number of asset-rich producers attracting new capital, and a large class of asset-poor farmers increasingly marginalized, as government support has been cut or redirected to commercial farming. Nevertheless, the absolute number of people living in rural areas has actually increased slightly in the past decade and it continues to be almost a quarter of the total population (24%). Furthermore, the percentage of Mexicans living in rural areas is expected to decline only slightly over the next two decades, as it is projected to stand at around 21% by 2030. [Consejo Nacional de Población (CONAPO), cited in OECD, *Agricultural and Fisheries Policies in Mexico*].

Almost one in every two Mexicans lives in households at or below the poverty line (less than a minimum wage of some four dollars a day; [*Mexico Country Brief*, World Bank, 2007]. Extreme poverty, defined as insufficient dietary intake, is far more extensive in rural Mexico. Indeed, 60% of all those who live in extreme poverty are in rural areas [CONAPO, cited in OECD, *op. cit.*]. This poverty has a regional dimension as well. In the north of Mexico, only 12% of rural inhabitants live in extreme poverty; in the south, almost half (47%) of those in rural areas live in extreme poverty.

VARIATIONS IN EXTREME POVERTY BY REGION, 2002

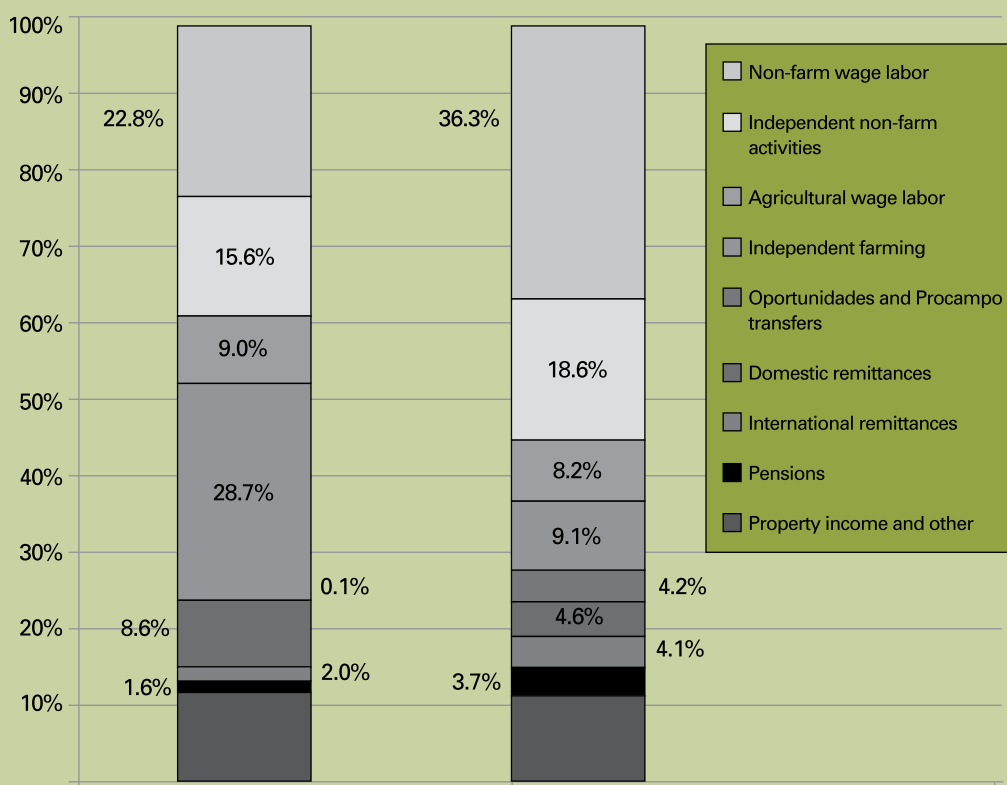


Sources: Graph from OECD, *op. cit.*

Rural livelihood strategies are increasingly diversified. Non-farm wages make up more than a third of rural revenue, having supplanted agriculture as the principle source of household income. According to a World Bank study, farming activities now generate less than 10% of rural family income, down from almost 30% in 1992.

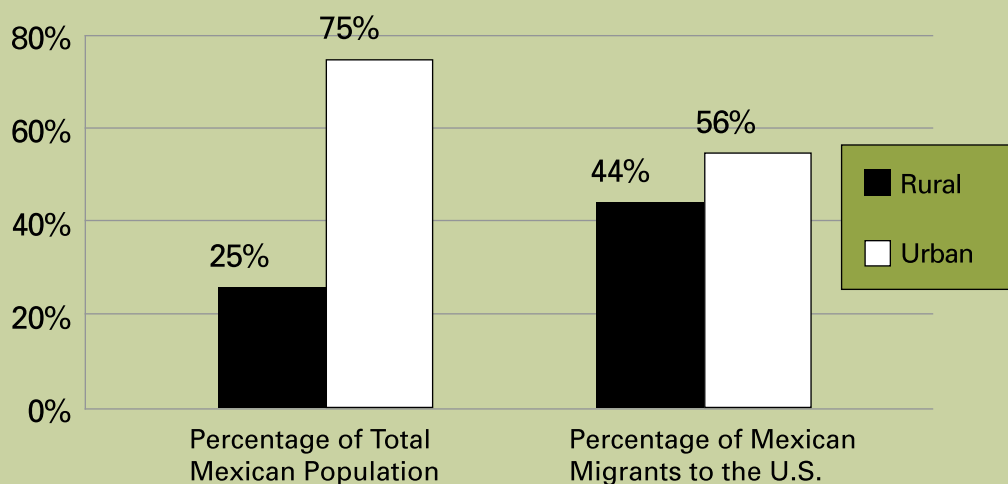
Kirsten Appendini, of the Colegio de México, described how the contemporary Mexican peasant economy is increasingly driven by consumption rather than production. Non-farm income, complemented by remittances and Mexican government welfare payments, have resulted in making farming a residual and marginal activity, in many parts of the country. Notwithstanding an increasingly monetarized economy, Appendini notes that economic linkages at the local level – increasing demand for locally-produced goods and services – have been very disappointing during the NAFTA-period.

PRINCIPAL SOURCES OF RURAL MONETARY INCOME, 1992 AND 2004



Source: OECD, *Agricultural and Fisheries Policies in Mexico*, Op. Cit., based on World Bank figures. See also the presentation by Alain de Janvry, Director of the World Bank's *World Development Report 2007: Agriculture for Development*, at the Woodrow Wilson Center, April 13, 2007.

RURAL VERSUS URBAN MIGRATION



Source: *Mexico-United States Migration: Regional and State Overview*, Mexico City: Consejo Nacional de Población, 2006, pp. 47–48.

Declining opportunities in rural Mexico have spurred migration to the United States. Although slightly less than a quarter of Mexicans live in rural areas, almost half (44%) of all Mexican migrants to the United States come from rural areas.

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The Mexican Foundation for Rural Development is a national organization with strong private-sector support, which, for 36 years has promoted small-family enterprises in agriculture and livestock. FMDR (known by its Spanish initials) specializes in business training and credit for small family farms, toward scaling up production, processing, and marketing. FMDR's vision is to invest in entrepreneurial development and to promote regional economies. Moving into advocacy, FMDR recently launched the Foundation Movement, including some 17,000 families, attesting to the capacity of Mexican small-scale farmers to respond to market signals and take advantage of market opportunities, given the chance.

The Crisis of Small Corn Producers

Given a sluggish local economy and the dominant peasant and often indigenous culture, it is not surprising that rural families show remarkable resistance to giving up the household cornfield, or *milpa*, grown for family consumption, and valued as the basis for its food security. In fact, the total area planted in *milpa* in Mexico is marginally up from 1994. Women and mature men increasingly farm, as do many children. In short, corn continues to be a mainstay of Mexican rural livelihoods, and its production sustains some 15 million people in a country of 103 million, two-thirds of whom are small-scale producers.

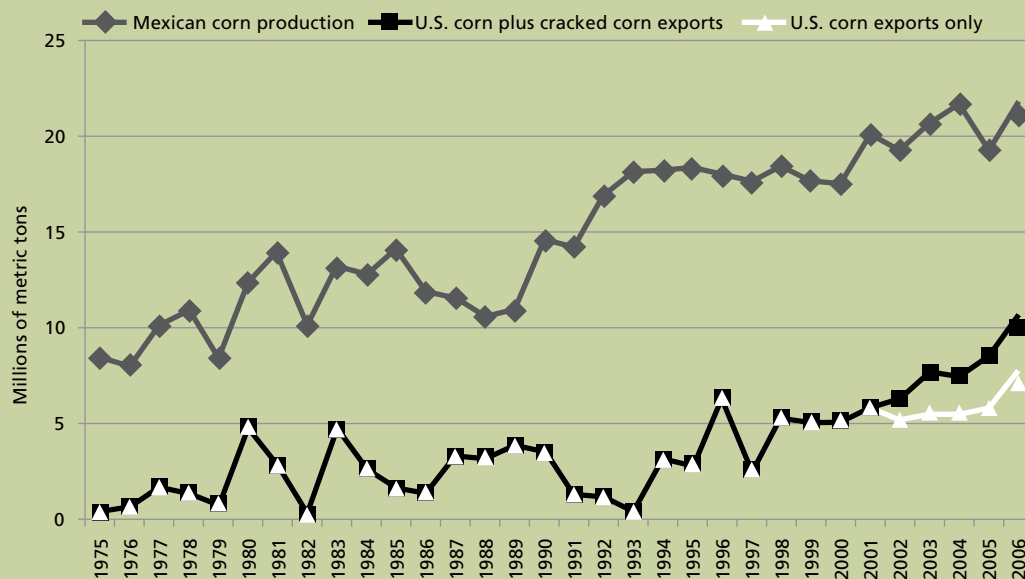
CORN PRODUCERS AND PRODUCTION IN MEXICO

Farms	Number of producers	%	Hectares	%	Production (tons)	%	Yield (tons per hectare)
Small-scale	2,000,000	67%	3,000,000	42%	4,000,000	22%	1.3
Medium-scale	700,000	23%	2,500,000	35%	8,000,000	44%	3.2
Large-scale, commercial	300,000	10%	1,600,000	23%	6,100,000	34%	3.8
Total	3,000,000	100.0%	7,100,000	100%	18,100,000	100%	

Source: Rello, F. and Saavedra, F. January, *Implicaciones Estructurales de la liberalización en la agricultura y el desarrollo rural*, cited by Kirsten Appendini, "The State of U.S.-Mexico Agricultural Trade and its Impact on Rural Producers"; presentation at the Woodrow Wilson Center, April 13, 2007.

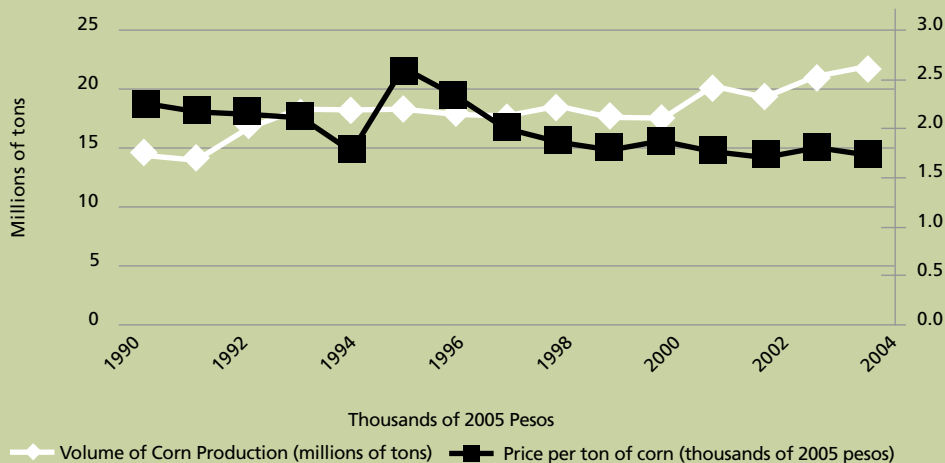
Because it is primarily grown for family consumption, domestic production of corn has continued to grow even as U.S. imports of the grain have risen dramatically. The United States exports yellow corn, for animal feed while Mexican farmers produce white corn, for human consumption. With a thriving food processing industry, then, Mexico imports roughly 40% of its total consumption.

MEXICAN CORN PRODUCTION AND CORN IMPORTS FROM THE U.S.



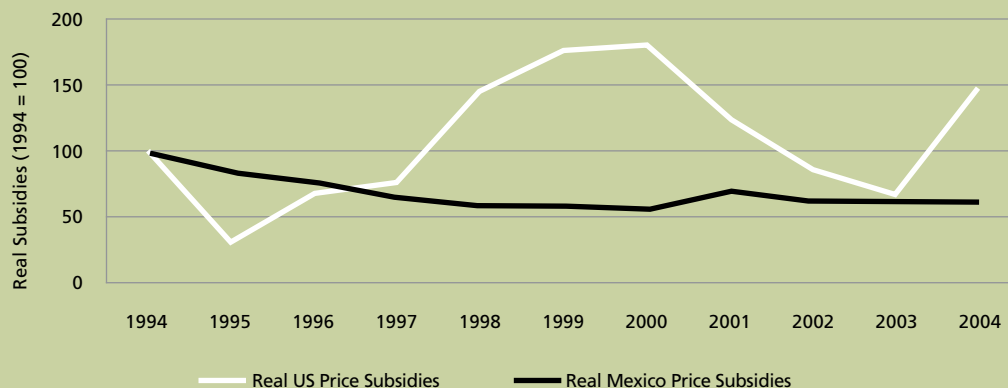
Source: U.S. Department of Agriculture, Foreign Agricultural Service, *U.S. Trade Internet System* (trade data) and Servicio de Información Agroalimentaria y Pesquera, Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca, y Alimentación (production).

PRODUCTION AND PRICE OF CORN IN MEXICO



Source: Fundación IDEA, based on OECD, *op. cit.*

REAL SUBSIDIES FOR CORN IN MEXICO AND THE U.S.



Source: Tim Wise, "State of Emergency for Mexican Maize," *op. cit.*, based on OECD calculations.

In short, Mexican small-farmer production of corn has increased despite, or in disregard for, the declining real price of corn since NAFTA came into effect. Antonio Yúnez-Naude has dubbed this "*recampesinización*," or the resurgence of the peasant economy.*

Experts differ in their projections regarding the price of corn in the future. In what is referred to as the "fuel vs. food" debate, the surge in corn-based ethanol production is greatly affecting the price of food in the United States and Mexico. This will benefit in the short term those small-farmers able to sell their excess harvest after meeting consumption needs, but the price of corn might slump within a year or two.

U.S. commodity subsidies have consistently topped Mexican subsidies, which helps compound the technological, credit, and scale advantages of U.S. farmers vis-à-vis their Mexican counterparts. Moreover, since both U.S. and Mexican subsidies tend to favor larger producers disproportionately, Mexican small-scale farmers are doubly disadvantaged by the existing subsidy regimes in the two countries.

* Presentation at the Woodrow Wilson Center, April 13, 2007. See also Antonio Yúnez-Naude and J. Edward Taylor, "Los impactos de las reformas internas y del TLCAN en la agricultura Mexicana," Folletín informativo No. 1, PRECESAM, El Colegio de México, available at www.precesam.colmex.mx.

Conclusions: Findings for Policy-Making

The problem of widespread rural poverty in Mexico is first and foremost an issue for Mexican policymakers to address. However, as agriculture becomes increasingly integrated in North America, rural poverty affects, and is affected by, binational policy decisions. First, there is a need for greater information exchange and coordination in agricultural policies. Second, there is a need for greater understanding of how agricultural integration affects rural poverty and measures to ensure that small-scale farmers can adjust successfully. Mexican rural poverty now significantly affects migration, the environment, and the long-term social and political evolution of both countries.

As full implementation of NAFTA agricultural provisions nears, both countries acknowledge that it is important to take stock of the impact of agricultural trade liberalization on rural development and its real and potential secondary effects. Earlier this year, Presidents George Bush and Felipe Calderón reconvened a binational agricultural working group to design a program of increased U.S. technical assistance that would ease the socio-economic transition of Mexican small farmers. However, most conference participants – describing rural poverty as widespread and engrained – considered that short-term technical assistance was necessary but insufficient for achieving national and binational objectives. Some conference participants even proposed more investment in small-scale farming to take advantage of emerging opportunities and drive local development in the long term.

The two governments should give serious consideration to the effects of further liberalizing the corn and bean markets at this time, while strategies to improve the competitiveness of small producers are still lacking. They should look at creative opportunities to invest in rural communities through credit, technical assistance, and infrastructure development. The U.S. and Mexican governments may want to consider timing the implementation of some agricultural provisions in the North American Free Trade Agreement to take advantage of the results of new programs of technical assistance and other measures that may be applied in the short term. Special attention to rural poverty is needed to avoid negative effects on the Mexican economy and heightening migration pressures. Opportunities to strengthen the binational agricultural and food sector should not be missed.

Public Conference and Working Group on U.S.-Mexico Agricultural Issues

Alain de Janvry, Director, *World Development Report 2008: Agriculture for Development***

Alfredo Lozano Córdova, Executive Director, Fundación Mexicana para el Desarrollo Rural

Andrew Selee, Director, Mexico Institute, Woodrow Wilson Center*

Antonio Yúnez-Naude, Profesor, El Colegio de México*

Brian Grunefelder, Division Director, Regional and Bilateral Negotiations, USDA

Bruce Zanin, Western Hemisphere Division, Office of Country and Regional Affairs, USDA

Carlos Vázquez, Director of the Agricultural Office, Embassy of Mexico/SAGARPA*

David Gallagher, Mexico Desk Officer, Foreign Agricultural Service, USDA

Deborah Barry, Researcher, International Food Policy Research Institute

Frederick deDinechin, Sr. Land Administration Specialist, Rural Development-LAC, World Bank*

Froylan Gracia, Counselor, Agricultural Office, Embassy of Mexico

John Burstein, President of the Board, Foro para el Desarrollo Sustentable*

John Nash, Advisor for Commodities and Trade, World Bank

Kate Brick, Program Associate Mexico Institute, Woodrow Wilson Center

Katherine Ozer, Executive Director, National Family Farm Coalition*

Kirsten Appendini, Profesor, El Colegio de México*

Mike Yost, Administrator, Foreign Agricultural Service, USDA

Raúl Abreu, Co-Director, Fundación IDEA*

R. Dennis Olson, Senior Policy Analyst, Institute for Agriculture and Trade Policy

Steven Zahniser, Agricultural Economist, U.S. Department of Agriculture, Economic Research Service*

Timothy Wise, Deputy Director, Global Development & Environment Institute, Tufts University*

Vicki Gass, Washington Office on Latin America

Victor Suárez, President, National Association of Rural Producers (ANEC)*

* Denotes speakers/moderators in public conference who also were working group members.

** Served as keynote speaker in the public conference but did not participate in the working group meeting.

Agenda

U.S.-MEXICO AGRICULTURAL COOPERATION: CHALLENGES WITHIN NAFTA

APRIL 13, 2007

Keynote Address: “Agriculture for Development: The Global Challenges”

Alain de Janvry, Director, *World Development Report 2008: Agriculture for Development*, World Bank, and Professor of Agricultural & Resource Economics at the University of California, Berkeley

Panel I: What are the Challenges?

Victor Suárez, President, National Association of Rural Producers (ANEC)

Katherine Ozer, Executive Director, National Farm Family Coalition

Carlos Vásquez, Minister for Agricultural Affairs, Embassy of Mexico

Moderator: John Burstein, Chair of the Board, Foro para el Desarrollo Sustentable

Panel II: Analyzing the Issues in the U.S.-Mexico Agricultural Relationship

Kirsten Appendini, Professor, El Colegio de México

Steve Zahniser, Researcher, U.S. Department of Agriculture

Timothy Wise, Deputy Director, Global Development & Environment Institute, Tufts University

Antonio Yúnez-Naude, Professor, El Colegio de México

Moderator: Frederick deDinechin, Sr. Land Administration Specialist, World Bank

