

The Mexican Agricultural Economy: A. U.S. Perspective

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Few agricultural systems are so closely intertwined and mutually dependent as those of the United States and Mexico. But despite our dependencies — or possibly because of them — our bilateral trade relationship has been one of frequent discord.

Too often in the past, each country has operated independently in its own self interest, oblivious to the importance of our \$2.2 billion in two-way agricultural trade to each partner and with little concern for the impact of its policies and actions on the other. However, the growing interdependence of our agricultural economies makes closer cooperation necessary, if not inevitable.

The supply/purchase agreement signed this past January between the United States and Mexico hopefully marks a turn towards greater cooperation in our agricultural relationships. This agreement is important because it guarantees Mexico the right to purchase specified quantities of basic agricultural commodities in the United States. This represents a significant change in U.S. policy. None of our other trading partners enjoys similar supply access guarantees. However, while this is undoubtedly important, the true significance of the agreement lies not in the guarantees it provides to Mexico, nor in the increased sales it means for U.S. agricultural exporters in the current year, but what it portends for U.S.-Mexican agricultural trade relationships in the future. If the governments of the United States and Mexico can bring the same cooperative spirit demonstrated in the agreement to bear on some of

the other problems confronting our two countries, we will have achieved a sound basis for the satisfactory resolution of some long-standing differences.

The Agreement

The first step toward the January agreement was actually taken last November when the Mexican Government signed contracts with a number of producers in Michigan, New York, and California for the supply of 177,000 metric tons of dried beans to Mexico in 1980. This was significant for both countries as well as unprecedented. On the one hand, it was the first time Mexico — or any other country, for that matter — contracted directly with U.S. producers to grow and supply a specific product for export. For the United States this quantity — representing roughly one-fifth of U.S. bean production last year — was the largest export sale of beans ever arranged.

The success of this effort, plus the convergence of several special circumstances, fueled the desire for both countries to enter into a more comprehensive agricultural pact at the start of the year. Among these special circumstances were:

— the serious shortfall in Mexican agricultural production in 1979 — especially of the country's dietary mainsays, corn and beans — as a result of prolonged drought and early frosts. The drought has continued with increasing intensity in 1980.

— the strain on the Mexican transportation system brought on by the sheer magnitude of Mexico's import requirements;

— the expectation that growth in the demand for food in Mexico stemming from population and income growth would continue to outstrip domestic production in the

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short run;

— the availability of large supplies of U.S. grains and oilseeds resulting from the suspension of exports to the Soviet Union; and

— the desire of both governments to strengthen our bilateral ties while at the same time satisfying important needs on both sides of the border.

Under the agreement, the Government of Mexico will buy about 9 million metric tons of food this year from the United States. Most of this will be obtained by CONASUPO (the Government purchasing agency) in the open market through a tender process. The U.S. Department of Agriculture is helping to facilitate the process by providing assistance to CONASUPO in development of specific tenders, publicizing tender announcements, and providing facilities in the Department for the awarding of contracts.

The agreement provides that the United States will guarantee Mexico access to the U.S. market to purchase up to the specified quantities. What this really means is that Mexican buyers of agricultural products have the same rights in the U.S. market as U.S. purchasers of those same products. In the event supplies are not available through normal commercial channels, the United States will use the "full scope of the legal authority" of the Commodity Credit Corporation to assist Mexico in acquiring the agreed-upon commodities.

In view of the success achieved under the agreement this year and the likelihood that Mexico's food import needs will continue to grow in the short term, negotiations to extend the agreement are expected to take place in the near future.

Mexico's Agricultural Sector and Policies

The U.S.-Mexican supply agreement complements moves initiated in Mexico last year towards more open trade in agricultural products. Needless to say, the United States wholeheartedly endorses this new direction in policy.

In the past, Mexico has been extremely reluctant to allow more imports, fearing that such action would be seen as a failure of Government efforts to achieve self-sufficiency in production of major food products. This reflects the political sensitivity of the agricultural sector in Mexico — a sector which has been characterized as both the cause and the potential cure of some of the country's major social and economic difficulties. It also reflects the inescapable fact that self-sufficiency in food production still remains a goal in 1980, not a reality.

Agriculture's contribution to Mexico's gross domestic product has been declining steadily over the past two decades. In 1979, it accounted for only about 8 percent of the total, down from about 11 percent in 1970. More importantly, agricultural production has been unable to keep pace with population growth over the last 10 years (Table 1).

Rural incomes are still less than one-fifth as large as those in urban areas — \$420 per capita versus \$2,700 in 1979. The poor earnings prospects in rural areas continue to encourage migration to the cities and emigration to the United States. And as the agricultural base gets smaller, the difficulty of achieving government production goals increases. Decreased production means higher food prices in the cities, fueling inflation (Table 2).

The problem of Mexican agriculture is extremely complex. Part of the problem is the existence of very real physical limitations on agricultural production in Mexico. Only about one-fifth of the total land area is arable — and much of this is totally dependent on adequate rainfall. Part of the problem is that Mexico's agricultural planners have found it difficult to strike a workable balance between the desire to increase agricultural production and exports on the one hand, and the need to improve the living conditions of the majority of the rural population on the other.

The major investments in agriculture during the past 25 years have been in irrigation. Roughly 25 percent of Mexico's croplands are now irrigated — and productivity in these

TABLE 1. Contribution of Agriculture to Mexico's Gross Domestic Product¹

	Total Share		Share from	
	From Agriculture		Crops	Livestock
	Percent		Percent	
1960	15	10	5	
1970	11	7	4	
1979 preliminary	8	5	3	

¹Does not include forestry and fishing

Source: U.S. Department of Agriculture.

TABLE 2. Growth in Mexican Agricultural Production

Period	Crops	Livestock	Total
		-----Percent-----	
1960-68	5.5	2.5	4.6
1968-78	1.9	5.3	2.8
1972-78	2.9	3.4	3.0
1960-78	3.5	4.1	3.6

Source: U.S. Department of Agriculture.

areas has gone up markedly. However, limitations on water and on land suitable for irrigation make it unlikely that new irrigation projects can contribute significantly to future increases in productivity. Far and away the bulk of the rural poor are involved in dryland farming or tropical agriculture — areas which haven't received nearly as much government attention and assistance.

Part of the problem can be found in the agrarian structure of the country where the land tenure system aids in the achievement of the country's social objectives at the expense of gains in agricultural productivity.

The basic farming unit in Mexico is the ejido — in which the land is owned by the Mexican Government but distributed to individual communities which, in turn, parcel it out to individual producers for their and their descendents' use as long as they actively farm it.

Ejidos represent nearly 70 percent of Mexico's total farming units. But despite their numerical superiority, they account for only

about half the value of the country's crops and only a fourth of the value of livestock production.

Their productivity is comparatively low when contrasted against that of Mexico's small privately owned farms. Farms of less than 5 hectares represent less than 20 percent of total farm units. Their average size is much less than that of the ejidos, but they still manage to account for 4 percent of Mexico's crop production and a very significant 20 percent of the value of livestock production.

The largest farm units, privately owned operations of more than 5 hectares, represent only 12 percent of Mexico's farms but account for 45 percent of the crop value and 54 percent of the livestock value (Table 3).

The contribution of private farms to Mexico's food needs is also handicapped by the strict legal limitations on the amount of land which can be owned and farmed. Present Mexican law does not allow producers to combine crop and livestock production. Thus, if they produce livestock, they can't

TABLE 3. Mexico's Farm Size and Structure

Type	Number	Average Size	Arable Land Per Unit	Value of Production	
				Crops	Livestock
	Thous.	Hectares	Hectares	--Percent of Total--	
Ejidos	2,182	32.0	5.8	51	26
Private Farms:					
Smaller than 5 hectares	609	1.5	1.2	4	20
Larger than 5 hectares	388	178.3	24.9	45	54
Total	3,179	44.0	7.3	100	100

Source: U.S. Department of Agriculture.

grow any of the necessary feed crops. Or, if they grow corn or soybeans, they can't raise pigs as a sideline.

The Drive for Self-Sufficiency

In March of this year the Mexican Government announced a new agricultural program known as SAM (Sistema Alimentario Mexicano), which departs in several significant ways from earlier programs.

SAM's stated goal is for Mexico's agricultural producers to achieve self-sufficiency in corn and edible beans by 1982, and in other basic commodities by 1985. This contrasts with earlier initiatives which focused mainly on the export sector.

However, a key feature of the program is the emphasis on improving the income and welfare of farm families through greater attention to dryland and tropical agriculture — not just irrigated agriculture.

The central elements in the new program are higher support prices for basic grains, lower prices for inputs, and greater availability of credit and crop insurance:

— The 1980/81 guaranteed prices for corn, wheat, and sorghum are being raised 28, 18, and 24 percent, respectively, over their year-earlier levels.

— Crop area will be expanded by 1.8 million hectares, of which nearly one-fourth will be irrigated.

— Credit availability to farmers has been raised by roughly a third over last year's level

and will be accompanied by preferential interest rates.

— The prices farmers pay for fertilizer and insecticides have been cut 30 percent, while crop insurance premium rates have been lowered 3 percent.

— The prices of improved varieties of corn and bean seeds have been cut by 75 percent and larger availabilities of these seeds also are expected.

Although the SAM program recognizes the need for a close link between consumer subsidies and producer prices, the government's fixed bread and tortilla prices will not be raised this year despite the increases in grower prices of wheat and corn. This means that demand for these products, which are already in deficit, will remain strong.

Continued Need for Imports

SAM is an ambitious program — but whether it can conquer the many constraints affecting agricultural production remains to be seen. While Mexico does indeed have the labor and now, thanks to its oil revenues, the capital to achieve sizable production gains in the next few years, its land tenure system may not be conducive to the kind of agricultural structure necessary for achieving self-sufficiency. Also, the lands that are not now in production tend to be marginal for agricultural purposes — the terrain is uneven, the rainfall erratic, the soils poor. Tremendous investments will have to be made to bring

these lands into production and to provide them with necessary infrastructure. Finally, there is the perversity of Mother Nature to overcome.

It is therefore likely that Mexico will continue to have significant import requirements in the short term. Over the longer term, the need for imports will be determined by the success of SAM on the one hand versus population and income-created demand on the other.

The potential pressures on the demand side are great. Mexico's per capita caloric consumption is only three-fourths as high as that in the United States. And of that total, roughly half the Mexican calories come from cereals, versus only 20 percent in the United States.

As gains in agricultural production help improve incomes in rural areas, assuming the SAM is successful, they will also create a desire for more food and a greater variety of food products, judging from what's happened in other countries as they develop. This will be magnified substantially as Mexico's new oil wealth filters through the economy (Table 4).

With a population growing at an average annual rate of roughly 3 percent, a projected 8-percent economic growth rate over the next decade, and the continuing pressure of rural-to-urban migration, the demand for a wider variety of food products — especially protein products — will increase. Mexico will have little alternative, at least in the short run, but to import larger quantities of grain and oilseeds. This has important implications for U.S. farmers since a substantial share of these imports will come from the United States.

Mexico's Agricultural Trade and Trade Policies

Mexico is already a billion-dollar customer for U.S. farm products, making it our ninth largest market. Most of our sales last year consisted of bulk commodities, such as corn, wheat and wheat flour, sorghum, and soybeans.

The United States, in turn, is Mexico's largest agricultural customer, with imports of agricultural products totaling \$1.2 billion in fiscal 1979. These consisted primarily of

TABLE 4. Factors Influencing Mexico's Demand for Agricultural Products

	Total	Rural	Urban
Population			
No. (Million)	68.3	28.7	39.6
Share of Total (Percent)	100	42	58
Rate of Growth (Percent)	3.1	1.5	4.8
Increase in Gross Domestic Product			
		Percent	
1960-1977		6.5	
1978		8.0	
1979		8.0	
Outlook Next 3-5 Yrs.		6.5-8.5	
Increase in Oil Revenues as a Share of Total Exports			
		Percent	
1977		24	
1978		31	
1979		45	
Jan.-May 1980		63	

Source: U.S. Department of Agriculture.

coffee and horticultural products — winter fruits and vegetables.

Mexico's agricultural trade policies are primarily a reflection of the country's efforts to become self-sufficient in production of basic commodities. Both imports and exports are tightly controlled.

Essentially all agricultural imports into Mexico require licenses, which usually are not granted for products which compete with those produced locally, or for which Mexican goods can be substituted. Foodstuffs considered luxury items, which include many canned goods, also are frequently refused the necessary licenses.

Mexico is one of the few countries in the world which uses an official price system for duty valuation. Official prices, which often have little relation to actual market values, serve as the basis for calculating ad valorem duties on many products, escalating the protective impact of Mexico's already high tariffs.

In the basic agricultural commodity areas, the Government supply agency, CONASUPO, until very recently had exclusive authority over imports and exports of such basic foods as grains, fats and oils, and dairy products. It permitted imports only when it determined that domestic supplies were short. These determinations frequently underestimated demand for these products by user industries and may have artificially constrained the development of domestic meat production. This is particularly true in the case of the poultry and pork industries. CONASUPO also set the price at which imports could be sold on the domestic market in order to protect domestic farmers. Since these prices were generally above world market levels, a further dampening of import demand occurred.

On the export side, the Government exercises strict controls to make sure that domestic consumption requirements are met before products are sold abroad. As an example of this policy, the Government imposed an embargo on exports of beef and live animals last year in an effort to increase domestic beef

supplies in the Mexican market. Shortages had driven prices up to a politically untenable level.

Unfortunately this action did not succeed in its immediate objectives because of the inability to redirect meat on short notice from the producing areas of the country to the deficit urban areas of Mexico. At the same time, by forcing cattlemen to sell at the lower internal price (rather than export), it may have also provided a disincentive to the long-term development of beef production in Mexico. Whereas the ban on livestock exports was lifted during 1979, the ban on meat exports essentially remains in effect.

Move Toward Trade Liberalization

Despite these controls, Mexico's trade policy is moving gradually away from protectionism and toward more open trade under the Lopez Portillo Government.

An important step in this direction came in March of last year, when the Mexican Government reached agreements with the wheat milling, mixed feed, and oilseed industries which significantly altered CONASUPO's import role.

Committees have been established by Mexico's Ministry of Commerce to provide the framework for the formulation of all import decisions. These committees consist of one representative of the Ministry of Commerce, one from CONASUPO, and one from the appropriate private trade association. Once import decisions have been made, CONASUPO will purchase in the name of and for the account of the private trade association.

In the past, private industries reliant on import decisions made solely by CONASUPO often complained of inadequate supplies and poor timing of purchases and deliveries. Their direct involvement on the committee that makes the import decisions should alleviate some of these supply problems and perhaps increase imports, although the final control of imports continues to rest with the Mexican Government.

Another change in CONASUPO's buying policies which may result in increased purchases from the United States is the abandonment of an earlier practice that one-third of all purchases would be made on a government-to-government basis, one-third through public tenders, and one-third through other contractual arrangements. Now, although CONASUPO still gives preference to government-to-government transactions, there is no predetermined limitation on the use of public tenders, and purchases of this type have been increasing. This should result in increased sales opportunities for U.S. exporters.

CONASUPO will continue to handle imports of certain quantities of oilseeds and grains in order to supply firms operating under public management and very small private processors.

Starting in July 1979, Mexico began a transition to the more common customs valuation practice of duties based on invoice values. Unfortunately, many agricultural products are still subject to the old official valuation system.

With the elimination of licensing requirements for an additional 586 import items late in 1979, less than 25 percent of the 8,000 items in the Mexican tariff remain subject to import licensing. The Mexican Government has promised that those items which continue to require import licenses will be reviewed during 1980, although further progress in liberalizing imports will undoubtedly be slow since most of these items are highly sensitive to Mexican industry and agriculture.

Licensing continues to cause problems for exporters like the United States. A few months ago, in response to a drop in Mexican pork prices caused by large-scale slaughter of swine, the Mexican Government stopped issuing import licenses for pork meat and meat products.

Although the United States is the principal supplier of pork to Mexico, there was no notification that this action was being considered or even that it had been imposed.

In a similar manner, the United States was not notified of a decision by the Mexican Government shortly after the pork ban to suddenly suspend imports of hides and skins.

These kinds of measures which suddenly and completely close the Mexican market to trade are extremely disruptive as well as costly to the individual shippers involved. However, of greater concern from a bilateral relations standpoint is the uncertainty such action creates for the future development of trade.

Mexico was an active participant in the recently concluded Tokyo Round of trade negotiations held under auspices of the General Agreement on Tariffs and Trade (GATT). Unfortunately, at the conclusion of these negotiations Mexico decided for internal reasons not to become a GATT member. This means that for the present, at least, Mexico remains outside of the only serious multilateral forum for the conduct of international trade. The advantage of the GATT is that it provides an institutional structure of trade rules and a mechanism which provides members with a chance to head off trade differences before they become trade confrontations. The GATT mechanism has been important for the growth and development of world trade. It could be important to Mexico as well. Hopefully Mexico will reexamine the issue of GATT membership at an early date.

Problems on the U.S. Side

Not all of the trade problems between our two countries result from actions taken south of the border.

In the United States, there is not universal enthusiasm about the prospect of greater imports of Mexican agricultural products.

While everyone acknowledges that trade is a two-way street, the U.S. producers who stand to be hurt by greater competition — notably, growers of fruits and vegetables — are loathe to "take it on the chin" so that other groups of U.S. producers — for example, growers of corn, soybeans, wheat, and perhaps livestock — may gain.

Time was when Mexico's big agricultural sales to the United States were coffee, cocoa, and bananas — which posed no threat to U.S. producers since we didn't grow these items ourselves.

While U.S. imports of these traditional items are still sizable, the most dramatic increases in recent years have been in imports of such competitive products as animals and animal products and, in particular, fruits and vegetables.

Within Mexico, the availability of cheap labor combined with favorable weather has historically given Mexico a cost advantage in production of horticultural products. As a result, shipments of Mexican horticultural products to the United States have increased significantly in recent years. In fact, fresh tomatoes are now the second largest agricultural export from Mexico to the United States, accounting for \$153 million last year.

Mexico's share of the \$400-million-plus U.S. winter vegetable market is now about half — and U.S. producers have been quite vocal about their belief that that is quite big enough.

The upshot has been a long history of complaints and countercomplaints which have characterized the so-called "Tomato War" with Mexico.

The "Tomato War" most recently came to the public's attention when growers from Florida filed a petition in September 1978 claiming that Mexican growers were dumping — that is, selling at prices below their fair market value — winter vegetables on the U.S. market. Tomatoes were one of the five products involved which also included eggplant, green peppers, cucumbers, and squash.

On March 24, 1980, the Commerce Department made a final determination that Mexican produce was not being sold in U.S. markets at less than its fair value. However, because of a number of complex legal issues involved, the Florida growers have appealed the decision and the case is still in the courts.

Mexico's shipments of horticultural products to the United States are expected to

continue to grow. And even though the inroads into U.S. markets are not likely to be as great as in the past as Mexican labor costs rise and U.S. efficiency increases through new harvesting and production techniques, the pressures will remain. If these pressures are to be managed without confrontation, greater cooperation will be required on both sides of the border.

In the past, Mexico has complained that U.S. health and sanitary, food additive, and pesticide regulations and marketing orders have also served as nontariff barriers to Mexican exports — particularly of horticultural products. But cooperation on the part of both nations has helped to lessen these complaints in recent years.

Many of the primary Mexican horticultural exports are subject to marketing order regulations in the United States which establish grade, size, quality, and maturity standards of imported as well as domestic produce. Among the crops so affected are tomatoes, onions, green peppers, avocados, mangoes, limes, oranges, grapefruit, cucumbers, and eggplant.

Despite their perceived drawbacks, however, the U.S. marketing orders may be of some value to Mexican producers who benefit from their price stabilizing effects. Also, most of the orders are less restrictive in the areas of quality, size, or grade regulations than Mexico's own quality controls on exports.

Of recent concern to Mexico have been Congressional efforts to include packaged tomatoes in the import provisions of the tomato marketing order so as to prohibit combining of sizes in packages. So far, these legislative proposals have not been successful.

Imports from Mexico of fresh or frozen beef and veal have been subject to voluntary restraints made necessary by the Meat Import Law of 1964. Although this program has from time to time strained our bilateral trade relations, in recent years Mexico has not filled its total allocation because of domestic shortages of meat. The U.S. law was changed

in 1979 to a counter-cyclical import program which permits larger imports when U.S. domestic production is down. This provides some obvious benefits to suppliers like Mexico in tight-supply, high-price years. It remains to be seen whether this new law will markedly affect Mexico's access in periods of domestic surplus.

Greater Cooperation Needed

The growing interdependence of U.S. and Mexican agriculture makes improved cooperation between our two countries essential. However, it is easier to talk about cooperation than it is to achieve it.

Cooperation requires hard work. It requires good information on both sides — and the willingness to share it. It requires moderation and at times compromise in order to avoid adoption of extreme and rigid positions.

The kind of trading environment that has often prevailed in the past between our two countries — where each country operates independently, entirely in its own interest — has a certain appeal to many on both sides of the border who prefer suspicion and confrontation to cooperation. In fact, moderation may be more difficult to explain to our two constituencies than a more extreme position.

The signing of the supply/purchase agreement in January was a very significant step in the direction of improved cooperation. We need to follow it up with more.

There are a number of areas where our two countries could benefit:

— A consultative mechanism should be developed and utilized to deal with trade problems, particularly affecting trade in winter fruits and vegetables.

— Innovative direct solutions to structural problems should be explored. For example, one possible solution to the meat deficit in Mexico, which would also alleviate the current pressure on the grain transportation system, would be the feeding of Mexican cattle on a contract basis in U.S. feedlots along the border. Grain shipped to the U.S.

side of the border would not tax the already overburdened Mexican railway system. The fed cattle or the processed meat, if Mexican slaughter facilities are limited, could be shipped back to Mexico to help overcome its meat deficit.

— A cooperative effort is already underway to seek solutions to transportation bottlenecks. Meetings involving high-level officials have been held on how to streamline the inspection process so trains can move back and forth across the border with minimal delays. Agreements have also been reached for use of unit trains to help with border congestion.

— There are ample areas for cooperation in scientific research and technical assistance. In the past year, Mexico and the United States agreed on an extensive scientific research and exchange program under which the two countries are developing exchanges on the production of livestock and conventional crops, screening of new crops, and agricultural education and training. Some 40 projects have been developed in the areas of arid land forage, animal production and health, and plant production. Another area is remote sensing where U.S. technology could be extremely useful to Mexican planners in improving crop estimating techniques.

One of the actions we're taking to better explore these areas of cooperation is the establishment of a U.S.-Mexican working group on agriculture. Discussions on the agenda for this group are in the initial stages. However, there is no reason why the group cannot undertake a broad view of its mandate and look into ways we can work together to our mutual interests.

Conclusion

Mexico's population and per capita incomes are on the rise. To meet the country's demand for food and feed, increased trade between the United States and Mexico is inevitable, even if the SAM achieves the success that Mexico's planners hope.

The supply/purchase agreement between Mexico and the United States marks a turning point in our bilateral relations in the direction of greater cooperation and interdependence. The Agricultural Working

Group will provide a mechanism for development of bilateral cooperation in a number of areas of mutual interest and benefits. It's time to get to work.