

## NAFTA's Impact on Mexican Agriculture: An Overview

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## Introduction

The North American Free Trade Agreement (NAFTA) between Mexico, the United States and Canada completed its tenth year on December 31, 2003, which means that since that date, practically all agricultural products are free from tariff protection in the trade between the three countries, and only in the cases of corn, beans and milk has a defense scheme been negotiated. This reality means it is very important to assess the impacts and results from NAFTA for Mexico's productive sectors, and in this case the agro-food sector. The purpose of this paper is to document and describe the economic and social impacts —both present and future— of *NAFTA's Chapter VII on Agriculture*,<sup>3</sup> with the aim of justifying through objective data the urgent need to review this chapter of the trade agreement in order to negotiate and establish protection mechanisms for some agricultural products.

This text consists of four sections:

Antecedents: Research from 1991 to date

Asymmetries among NAFTA partners

A ten-year evaluation of NAFTA

Prospects for the year 2008

Proposals

### **Antecedents: Research from 1991 to date**

Research studies conducted since 1991 by small, medium and large producers and by various academic groups in Mexico conclude with phrases such as the following: *In general, Mexico has little to gain and much to lose from the trade agreement with the United States and Canada, and therefore [CIESTAAM] recommended against negotiating from positions that jeopardize the domestic production of our most important foods —primarily grains, dairy products and meat— in order to avoid severe damage to the national industry and to restrain a growing and unacceptable dependency in terms of food and in economic, technological and*

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<sup>3</sup> North American Free Trade Agreement. Chapter VII: Agriculture and Sanitary and Phytosanitary Measures, [http://www.rmalc.org.mx/tratados/tlcan/tlcan\\_cap07.pdf](http://www.rmalc.org.mx/tratados/tlcan/tlcan_cap07.pdf).

*even political terms.*<sup>4</sup> Given this scenario, some agents have insisted on the need for a partial suspension of NAFTA (Chapter VII. Agriculture).<sup>5</sup>

In the year 2002, the World Bank came to similar conclusions: “It can be said that [the rural] sector has been the object of the most drastic structural reforms (trade liberalization as promoted by GATT and NAFTA, elimination of price controls, structural reform in relation to land ownership), however the results have been *disappointing* (authors’ emphasis): stagnation of growth, lack of competitiveness in the international market, an increase in poverty in rural areas.... This sets forth a significant political problem, because effective in 2008 any last remaining import duty or trade barrier in the NAFTA region will be removed and the trade accord will be fully completed. The Mexican agricultural sector will then find itself in open and total competition with Canada and the United States.”<sup>6</sup>

Since the end of 2002, Mexican farmers, who are organized in a wide variety of ways, have been clear about the situation they face and have been insisting that *the rural sector can't take any more (El campo no aguanta más)*. A struggle began not only against the government and against transnational corporations, but also against Mexico's long-standing corporative-style farmer organizations. On January 31, 2003 a protest march of more than 100,000 persons culminated at Mexico City's central plaza, and was tolerated and accepted by the citizens of that huge city (although usually, marches of this type provoke a great deal of irritation), indicating the solidarity and sympathy felt for farmers engaged in this current struggle. It also demonstrates that the farmer movement has not faded away and has the capacity to renovate itself.

The struggle waged by Mexican farmers culminated on April 28, 2003 with the signing of the *National Agreement for Agriculture (Acuerdo Nacional para el Campo—ANC)*.<sup>7</sup> This Agreement, signed by the federal government and some of

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<sup>4</sup> CIESTAAM, 1992, *La agricultura mexicana frente al Tratado Trilateral de Libre Comercio*. Mexico City: Juan Pablos, p. 10.

<sup>5</sup> Agriculture Committee of the House of Representatives, 2000, *¿Cuánta Liberalización Aguanta la Agricultura? Impacto del TLCAN en el sector agroalimentario*. Mexico City: House of Representatives, UACH, CIESTAAM, CECCAM, 2000, 348 p.

<sup>6</sup> World Bank, Memorandum from the President of the *Banco Internacional de Reconstrucción y Fomento* and the *Corporación Financiera Internacional* to the Executive Directorate, on “Estrategia de Asistencia para el País del Grupo del Banco Mundial para los Estados Unidos Mexicanos. Unidad para Colombia – México – Venezuela.” Report No. 23849-ME, April 23, 2002, pp. 12-13, [http://bancomundial.org.mx/pdf/EAP\\_Documento\\_Principal.pdf](http://bancomundial.org.mx/pdf/EAP_Documento_Principal.pdf).

<sup>7</sup> This complete text is available at <http://www.sagarpa.gob.mx/cgcs/acuerdo/>

the producer organizations, consists of a total of 282 points to be resolved in the short and medium term. Agreement 47 refers to an assessment of NAFTA, stating specifically: “*The Federal Executive Branch will conduct a comprehensive assessment of the impacts and implementation of the NAFTA Agriculture Chapter... This assessment will be carried out with participation by farmer and producer organizations, and the productive chains, inviting the National Congress, local governments, universities and research centers, and should be completed by no later than December 31 of the current year.*”<sup>8</sup> Just as many other points in the Agreement, No. 47 has not been fulfilled at the time of this writing. This is because of the profound differences between the Mexican government and producer organizations with respect to the importance of agriculture in the national economy, and consequently, the difficulty in naming an entity to be responsible for conducting out such a study.

In the following section we will expand upon the two different positions in relation to agriculture in Mexico.

### **Importance of agriculture – Two positions**

In Mexico there are at least two positions that are completely opposite with regard to the agricultural sector's importance in the economy and NAFTA's impact on the sector. The first position measures the importance of this sector solely in monetary terms, based on its contribution to the country's GDP, and it evaluates NAFTA's impact exclusively through trade statistics.

The other position (presented here) considers the following: a) the multiplying effect of the agricultural sector, in both vertical and horizontal directions, or in other words, the impact on the manufacturing and inputs industries, and on the transportation, services and trade sectors; and b) the *multi-functionality* (multi-functional nature) of this sector, as the foundation for food and food sovereignty, and as a creator of jobs and foreign currency. However, this position also considers the agricultural sector's impact on society, and its importance for maintaining peace in rural areas, for protecting the environment, biodiversity and the countryside, as the basis for our culture in relation to food and as an important part of our national identity. This second position acknowledges the existence of a number of different

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<sup>8</sup> ANC, p. 17. In-depth information regarding ANC can be found in Schwentesius, Rita et al., “¿El campo aguanta más?” La Jornada Publishers and CIESTAAM, Mexico, 2003.

rural sectors in Mexico, leading to the necessity for differentiated policies toward the various types of producers and regions characterizing our country.

Nevertheless, the first position is the one that prevails in Mexico's current policies (Realpolitik), and all tendencies organized around the second perception are scorned and suppressed. Measures are implemented to provide assistance<sup>9</sup> and protection<sup>10</sup> only for large agricultural producers and for groups associated with US capital, while agricultural policy is reduced to charity-type programs that lead nowhere.

### **Asymmetries among NAFTA partners**

Trade relations between Mexico and its trade partners, the United States and Canada, are characterized by numerous asymmetries that explain, to a significant degree, NAFTA's negative impact on Mexico's agricultural sector, as demonstrated by comparing this sector before and after the signing of NAFTA:

#### ***Before NAFTA's signing:***

1. Asymmetries in natural resources, technological levels, producers' capitalization, assistance and subsidies received, etc. (see Table 1A in Annex).
2. Noncompetitive production costs in Mexico, due to higher prices for inputs such as diesel and electricity, and steep financial costs; as well as higher costs in commercializing products (due to deficient, poor-quality infrastructure in terms of highways and warehouse storage, lack of information, and other related factors). These are costs over which producers have no influence.
3. NAFTA was poorly negotiated from Mexico's point of view, since: a) the agreement was negotiated without considering the entire prior experience of the Free Trade Agreement between the United States and Canada; also, chapters 19 and 20, referring to trade-related disagreements and controversies, are inadequate for genuinely resolving conflicts, and their contents lead to a vicious circle with no real solutions; and b) the most sensitive products were not excluded, as

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<sup>9</sup> In early 2003, for example, the Mexican government reduced the prices charged for electricity and for diesel used in agriculture, although numerous bureaucratic hurdles are involved.

<sup>10</sup> The Mexican government established measures for safeguarding the nation's poultry industry, which is the most technologically advanced, and furthermore, the industry that is the most integrated with the United States, due to the capital originating from that country.

they were for Canada (poultry products, milk products); and also, high import quotas for Mexico were accepted, with no tariffs required for a great diversity of products; plus there is no provision for the possibility of review, suspension, moratorium or the use of other instruments for protecting domestic production at a given time.

4. Unequal legal standing: the United States negotiated a *Free Trade Agreement*, while in Mexico, NAFTA is recognized as a *Treaty*, thus with different legal implications, including limitations on its review.
5. The United States has traditionally held and exercised greater negotiating capability and power. It uses lobbying, ongoing evaluation studies, and other similar maneuvers to reinforce its negotiating strength.

***After NAFTA's signing:***

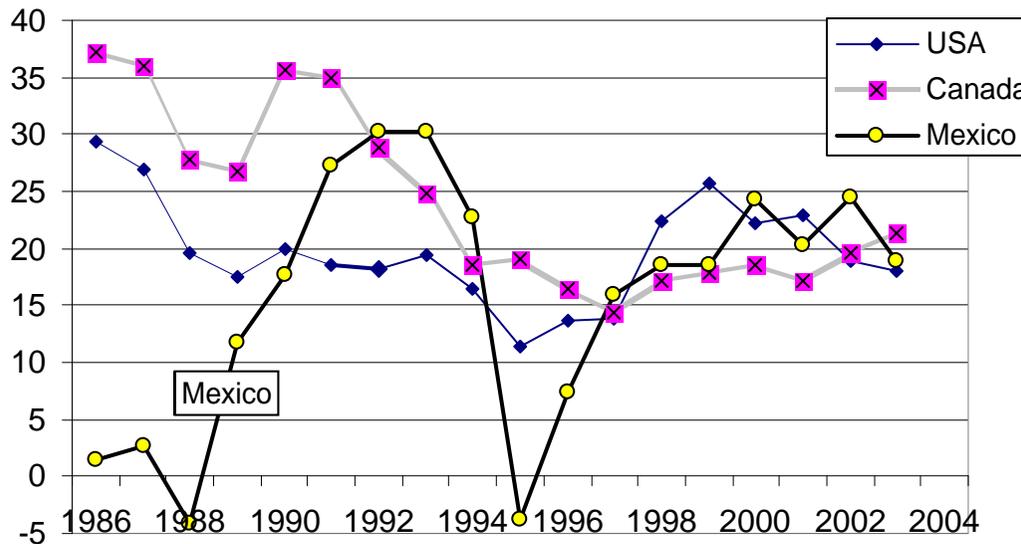
6. With the new US Farm Bill, farmers in that country receive 70% more assistance. In Mexico, subsidies represented an average of 26% of the value of production in 1994-2001, while in the United States this percentage was 19%, and in Canada, 18% (Figure 1).<sup>11</sup> Thus, before NAFTA, the levels of assistance in the United States and Canada were much greater than in Mexico.

The methodology used by OECD (Organization for Economic Cooperation and Development) for estimating government assistance to farmers indicates a major inconsistency in agricultural assistance in Mexico vis-à-vis the other NAFTA partners. It is worth clarifying here that the OECD methodology illustrates the distortion caused by the exchange rate in the case of Mexico. Since Mexico has had a notoriously over-valued exchange rate, agricultural assistance is over-estimated. If we use a balanced exchange rate, the subsidy decreases to 8% in 2008 in Mexico, or in other words, it represents 39% of the assistance provided in the US.

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<sup>11</sup> OECD, *Producer and Consumer Support Estimates*, OECD Database 1986-2003, <http://www.oecd.org/dataoecd/33/50/32361372.ZIP>, 2005.

**Figure 1**  
**Agricultural Producer Support Estimates for the United States, Canada, and Mexico, 1986-2003 (% of the value of agricultural production)**

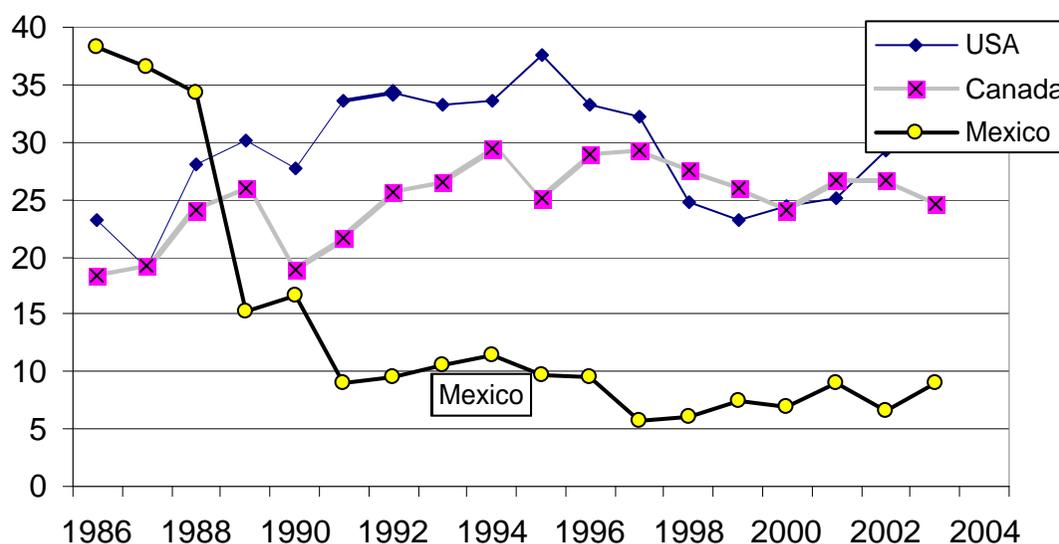


Source: Authors' calculations based on data from OECD, *Producer and Consumer Support Estimates*, OECD Database 1986-2003, <http://www.oecd.org/dataoecd/33/50/32361372.ZIP>, 2005.

7. In addition, US farmers receive assistance in the amount of US \$120.00 per hectare, while in Mexico, the assistance received is equivalent to only US \$45.00 (OECD). US producers farm an average of 29 hectares (arable land), while Mexican farmers, only 1.8 hectares (FAO, FAOSTAT). Moreover, according to data from the World Bank, the productivity of a US agricultural worker is 18 times greater (US \$39,000) when compared to a worker in Mexico (US \$2,164).
8. However, the asymmetries do not only exist in terms of amounts of subsidies, but also in relation to their potential impact for the long term, and the capacity to generate technological innovations in a context of open competition. In this sense, Mexico's trade partners are promoting subsidies through services such as: research and development, universities, infrastructure, commercialization, promotion, and stable reserves (Figure 2). In 1994-2003, only an average of 8% of Mexico's subsidies were designated for services, while Canada and the United States reserved more than a fourth of their resources for this area.
9. There are also asymmetries in the application of the limitations negotiated in NAFTA. In practice, Mexico has never charged tariffs on imports beyond the negotiated quotas for corn and dry beans, and consequently, the fiscal revenue lost during the NAFTA years represents more than US \$3 billion for corn, and

US \$121 million for beans, in imports from the United States alone (Tables 1 and 2). Moreover, because of the limited capacity of Mexico's customs system, imported apples, beans, sugar, and corn, plus pork, beef and poultry products escaped the payment of safeguards, compensatory quotas and general import taxes in proportions, in all cases, above 50% of traded volumes.<sup>12</sup>

**Figure 2**  
**General Services Support Estimate in relation to Total Support Estimate in the United States, Canada and Mexico, 1986-2003 (% of total Support)**



Source: Authors' calculations based on data from OECD, 2005, *op. cit.*

- Exports to Mexico reported by the US Department of Agriculture (USDA)<sup>13</sup> contrast with the designation of import quotas by Mexico's Secretary of Economy. In the case of corn, the designation as of December 31, 2003 was a total of 3,773,319 tons ([http://www.economia.gob.mx/pics/p/p1294/MMAI\\_AE5.XLS](http://www.economia.gob.mx/pics/p/p1294/MMAI_AE5.XLS), 07.02.1004), or 2.3 million tons less than the amount registered by the United States. Another source of statistical information on imports reports the introduction of over 5.756 million tons, or 200,000 more tons than what was registered by the United States.<sup>14</sup> In the case of beans, there is a difference of 11,602 tons between the statistics of the two countries.

<sup>12</sup> *El Financiero*, "El TLCAN tomó por sorpresa a las aduanas, José Guzman. 26.04.2004.

<sup>13</sup> Canada is not exporting corn to Mexico.

<sup>14</sup> Cited by: Zahniser, St. and William Coyle, "U.S.-Mexico Corn Trade During the NAFTA Era: New Twists to an Old Story," in USDA/ERS: *Electronic Outlook Report from the Economic Research Ser-*

**Table 1**  
**Mexico's loss of fiscal revenue from US corn imports exceeding NAFTA quotas, 1989/93-2008**

<i>Year</i>	<i>Import</i> (tons)	<i>Quota</i> (tons)	<i>Over-quota</i> (tons)	<i>NAFTA</i> <i>Tariff</i> (US \$ / ton)	<i>Fiscal loss</i> (US \$)	<i>Broken corn</i> (tons)
1989/93	2,148,215					43,510
1994	3,058,148	2,500,000	558,148	197	109,955,156	121,656
1995+	5,945,500	2,575,000	3,370,500	189	637,024,500	53,917
1996	6,314,387	2,652,250	3,662,137	181	662,846,797	41,188
1997	2,566,264	2,731,817		173	0	44,771
1998	5,247,763	2,813,771	2,433,992	164	399,174,688	58,583
1999	5,068,619	2,898,184	2,170,435	156	338,587,860	25,079
2000	5,146,666	2,985,129	2,161,537	139	300,453,643	26,130
2001	5,592,398	3,074,682	2,517,716	121	304,643,636	249,262
2002	5,326,755	3,166,922	2,159,833	104	224,622,632	987,354
2003	5,577,411	3,261,930	2,315,481	87	201,446,847	2,685,000
2004		3,359,788		69		
2005		3,460,581		52		
2006		3,564,399		34		
2007		3,671,331		17		
2008		Free		0		
<b>Total</b> (94-03)	<b>49,843,911</b>		<b>21,349,779</b>		<b>3,178,755,759</b>	<b>4,292,940</b>

+ The United States changed the data of volume exported to Mexico in the year 2000 to 2,871,567 t, while the FAO database continued to use 5,945,500 t (<http://apps.fao.org>, consulted Feb. 7, 2004).

Source: Authors' calculations based on information from USDA, ERS, *Foreign Agricultural Trade of the United States* (<http://www.fas.usda.gov/ustrdscrip/USReport.exe>, consulted Feb. 14, 2004) and SECOFI, 1994, *Tratado de Libre Comercio de América del Norte, Fracciones arancelarias y plazos de desgravación*, Mexico, Miguel Ángel Porrúa Book Publisher, pp. 78-80.

11. In the case of corn, the importing of broken grain has also increased, and since 2003 it is tariff-free. In that same year, imports reached nearly 2.7 million tons. In other words, the amount actually entering Mexico was 8.4 million tons.

vice, FDS-04D-01, May 2004, <http://www.ers.usda.gov/publications/FDS/may04/fds04D01/fds-04-D01.pdf>.

12. Mexico has not achieved the necessary progress in defining and applying standards, thus allowing tariff-free imports and the lack of plant and animal sanitation control, in the case of meat products, for example.

**Table 2**  
**Mexico's loss of fiscal revenue from US and Canadian bean imports exceeding NAFTA quotas, 1989/93-2008**

Year	NAFTA quota+		Import		Import Above tariff- free quota (tons)	Tariff Above quota (US\$ / ton)	Fiscal loss (US\$)
	US	Canada	US	Canada			
	(tons)	(tons)	(tons)	(tons)			
	A	B	C	D	(C+D)-(A+B)		
1994	50,000	1,500	54,964	1,262	4,964	460	2,283,440
1995	51,500	1,545	24,048	696	--	441	-
1996	53,045	1,591	119,972	4,877	70,213	422	29,629,886
1997	54,636	1,639	86,628	1,685	32,038	403	12,911,314
1998	56,275	1,688	189,973	6,336	138,346	384	53,124,864
1999	57,964	1,739	121,617	1,736	63,653	364	23,169,692
2000	59,703	1,791	84,708	1,791	25,005	324	8,101,620
2001	61,494	1,845	115,557	8,600	60,818	283	17,211,494
2002	63,339	1,900	97,017	4,189	35,967	243	8,739,981
2003	65,239	1,957	87,944	9,000	29,748	202	6,009,096
2004	67,196	2,016				162	
2005	69,212	2,076				121	
2006	71,288	2,139				81	
2007	73,427	2,203				40	
2008	free	free				free	
<b>Total</b>			1,022,600 t				US\$161,181,387

+ Negotiated tariff-free quota.

Source: Authors' calculations based on BANCOMEXT, World Trade Atlas. Foreign Trade Statistics. Information on CD-Rom, various years; and SECOFI, 1994, *Tratado de Libre Comercio de América del Norte. Fracciones arancelarias y plazos de desgravación*, Mexico, Miguel Ángel Porrúa Book Publisher, p. 66.

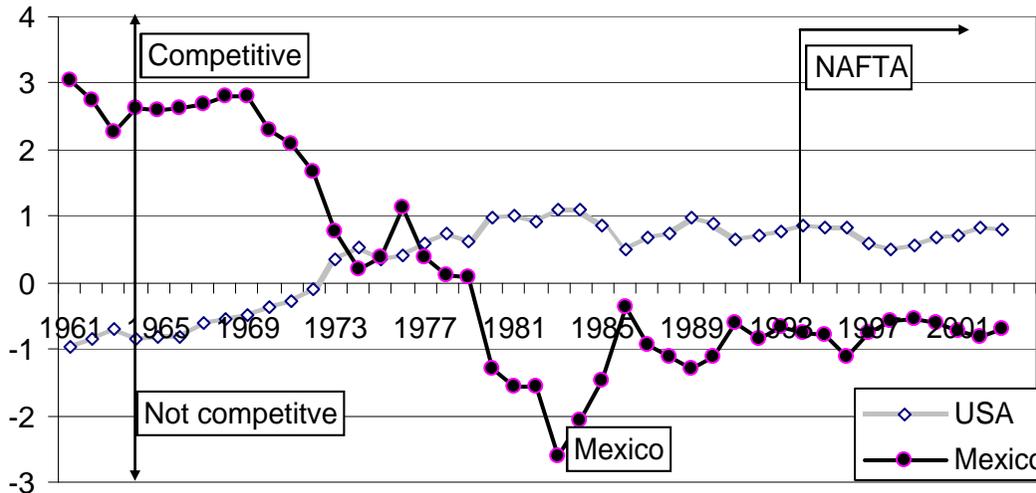
## A ten-year evaluation of NAFTA

After ten years, NAFTA's impact is more dramatic than predicted:

1. Mexico's overall agro-food sector is not competitive in the NAFTA region (Figure 3). Although it was previously competitive in the 1960s, Mexico has gradually lost ground. In the period since NAFTA entered into effect, it has not

created the expected conditions for improving the situation and reversing the tendency toward less competitiveness, and thus Mexico has not been able to narrow the gap with respect to the United States.

**Figure 3**  
**Competitiveness of Mexican and US agro-food sectors**  
**in the NAFTA region (1961-2003)**



Source: Authors' calculations based on Index of Vollrath,<sup>15</sup> and data from FAO, FAOSTAT, <http://faostat.fao.org/faostat/form?collection=Trade.CropsLivestockProducts&Domain=Trade&servlet=1&hasbulk=0&version=ext&language=ES>, May, 2005.

- Due to its lack of competitiveness, Mexico has a chronic trade balance deficit, with an increasingly worsening trend. Ten years since NAFTA went into effect, this deficit reached US \$17.1 billion, equivalent to 4.3 times the budget for Mexican agriculture for the year 2003 (Figure 4). This deficit is in addition to the foreign debt that has been hanging over the country since the oil crisis of the early 1980s. Since NAFTA went into effect, Mexico has spent the exorbitant amount of US \$90 billion on purchasing food, an amount greater than the country's public debt (US \$87,658,000).<sup>16</sup> As we begin the 21st century, Mexico's

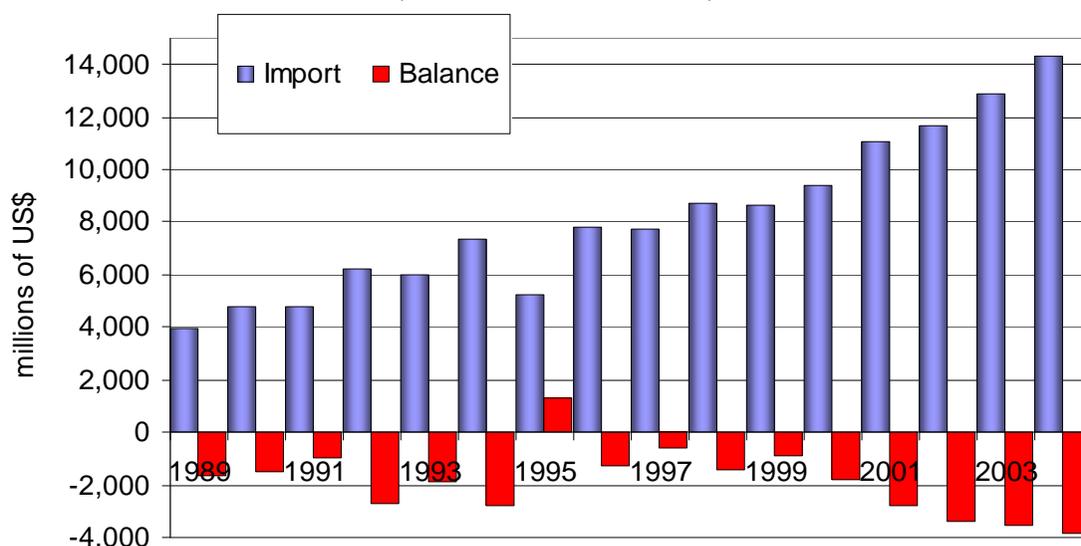
<sup>15</sup> Vollrath, Thomas L. and Paul V. Johnston. "The Changing Structure of Agricultural Trade in North America, Pre and Post CUSTA/ NAFTA: What Does It Mean?" AAEA/ CAEA poster paper, (annual meetings), Chicago, August 5-8, 2001. <http://www.ers.usda.gov/briefing/nafta/PDFFiles/Vollrath2001AAEAPoster.pdf>

<sup>16</sup> Mexico. President's Office, 2002, *Segundo Informe de Gobierno*, September 1, Annex, p. 237.

food imports are as high as the value of revenue obtained by its oil exports, and represent a third of the total food imports in all of Latin America.<sup>17</sup>

3. In 2004 Mexicans agro-food deficit reached a new historical record with nearly 4 billion US dollar (Figure 4).
4. Mexico is also a major exporter of agricultural and processed food products. However, its export structure points to two problems: first of all, exports are concentrated in the alcoholic beverage industry (22%), which is transnational in nature, signifying that the benefits from this trade do not remain in Mexico, and secondly, the multiplying factor from exports is relatively low due to the high component of imported inputs for production and manufacturing.

**Figure 4**  
**Mexico. Food imports and agro-food trade balance, 1989-2004**  
**(millions of dollars)**



Source: Authors' calculations and elaboration based on INEGI, <http://www.inegi.gob.mx>, May 20005.

5. In 1993, before NAFTA, Mexico imported 8.8 million metric tons of grains and oilseeds, however it is estimated that in 2003 Mexico imported more than 20 million metric tons, or 2.3 times more. Since NAFTA, 148 million metric tons have been imported. In grains and oilseeds alone, Mexico imported the equivalent of US \$32 billion between 1994 and December 2003,<sup>18</sup> and every year, the

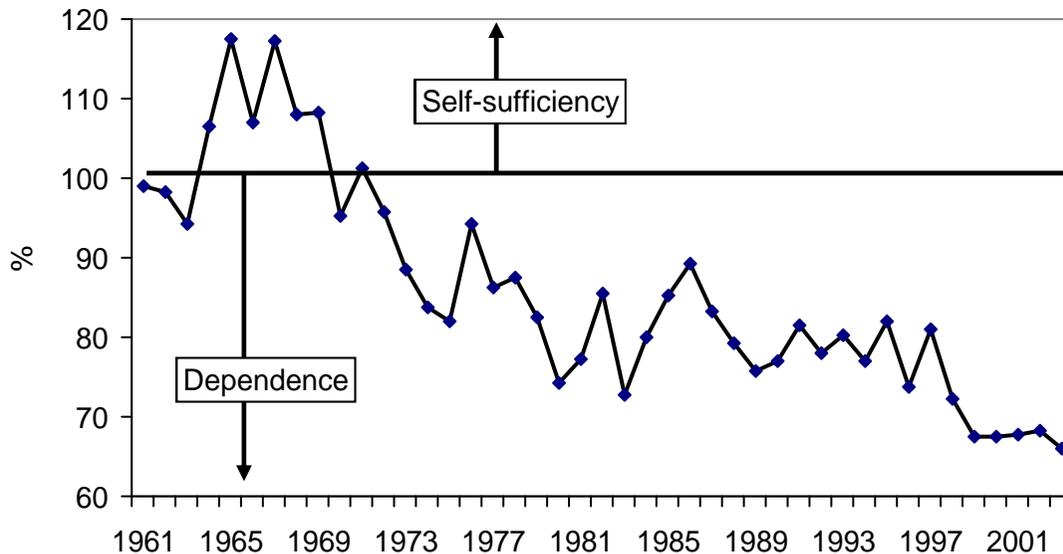
<sup>17</sup> Authors' calculation based on information from FAO.

<sup>18</sup> INEGI, *Banco de Información Económica* (BIE), Foreign Sector, Import of merchandise by product and economic activity of origin, <http://www.inegi.gob.mx/difusion/espanol/fbie.html> 4.12.2003.

amount of imports increases. Despite a decreasing tendency in international grain prices, Mexico has, during NAFTA's ten years, registered a 7% annual average growth rate in the value of imports.<sup>19</sup> The situation for meats, tropical fruits, etc. is similar.

6. Statistics indicate that Mexico is losing its food sovereignty, and instead has a greater dependency on imports. Because of NAFTA, imports in the region are being diverted to the United States, replacing other countries that have traditionally supplied the Mexican market, such as Uruguay in the case of rice and Brazil in the case of soybeans.

**Figure 5**  
**Mexico. Tendency toward losing self-sufficiency in grains, 1961-2003 (% of consumption)**



Source: Authors' calculations, based on FAO, FAOSTAT, 2005, op. cit.

7. These imports have displaced national producers, increasing unemployment in rural areas, and destroying part of the country's infrastructure. Unemployment in rural Mexico has increased at an alarming rate (Table 3). According to data from the Department of Labor and Social Security, more than two million jobs have been lost, and of that amount, nearly 600,000 are related to basic grain production. It is estimated that 40% of pork producers have stopped producing,

<sup>19</sup> Authors' calculations based on INEGI, [http:// www.inegi.gob.mx](http://www.inegi.gob.mx).

and 24% of potato producers have done the same, with similar experiences in the cases of rice and corn producers.

8. Indirectly, imports also have a negative effect on natural resources and the environment, since farmers are left without sustainable, profitable alternatives. The increasingly reduced options for crops in the country's different regions oblige farmers to limit their production to single crop growing, to the detriment of soil fertility. For example, cotton and soybeans are no longer options in the state of Sonora, and rice, sugar cane and cotton have disappeared from the fields of Sinaloa.
9. Despite the claim that NAFTA would attract more foreign investment in agriculture, as well as create more jobs and increase workers' remunerations, poverty in Mexico's rural areas has increased. According to official statistics, 69.3% of the total rural population is poor.<sup>20</sup> Since NAFTA went into effect, foreign investment in the agriculture sector has dropped to only a tenth of what it was in pre-NAFTA years. From 1990 to 1993, an average annual amount of US \$45 million in foreign investment was introduced into Mexico's primary production sector, however this amount dropped to less than US \$4 million in the 2001 to 2003 period.<sup>21</sup>

**Table 3**  
**Mexico. Population employed in agricultural and food industry activities, 1993-2003**

	1993	1995	1997	2000	2003	Difference 1993-2003
Total population*	86,613,285	90,163,560	93,938,107	97,378,680	103,636,353	
Employed population (number)**	32,832,680	33,881,068	37,359,758	38,983,855	40,633,197	7,800,517
Agricultural activities (number)	8,842,774	8,378,344	9,020,277	7,060,706	6,813,644	- 2,029,130
Agricultural/Total (%)	26.93	24.73	24.14	18.11	16.77	-37.73
Food industry (number)	1,180,654	1,106,388	1,532,994	1,561,033	1,707,939	527,285

Source: \* Consejo Nacional de Población, *Población de México en Cifras*, [http://www.conapo.gob.mx/m\\_en\\_cifras/principal.html](http://www.conapo.gob.mx/m_en_cifras/principal.html)

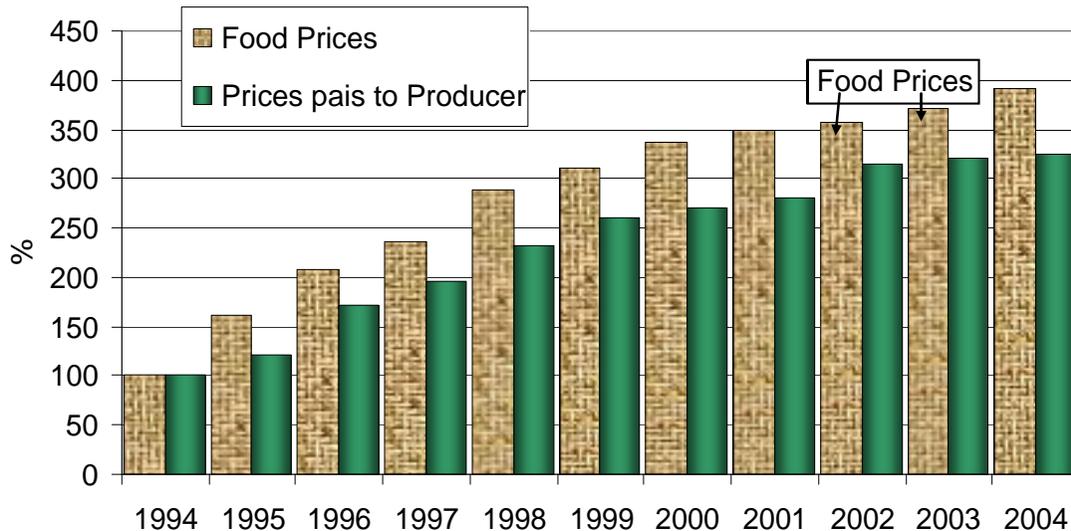
\*\*Department of Labor and Social Security (*Secretaría del Trabajo y Previsión Social—STPS*). *Encuesta Nacional de Empleo. Población ocupada por sexo y rama de actividad económica. 1993-2000*; [http://www.stps.gob.mx/01\\_ofici-na/05\\_cg\\_peat/302\\_0055a.htm](http://www.stps.gob.mx/01_ofici-na/05_cg_peat/302_0055a.htm), 9.11.2002. 2003; [http://www.stps.gob.mx/01\\_oficina/05\\_cgpeat/302\\_0156.htm](http://www.stps.gob.mx/01_oficina/05_cgpeat/302_0156.htm), 14.02.2004.

<sup>20</sup> Cortés Cáceres, Fernando et al., 2002, *Evolución y características de la pobreza en México en la última década del siglo XXI*, SEDESOL, August, p. 19.

<sup>21</sup> Mexico. President's Office. *3er Informe de Gobierno*. September 1, 2003. Annex, p. 332.

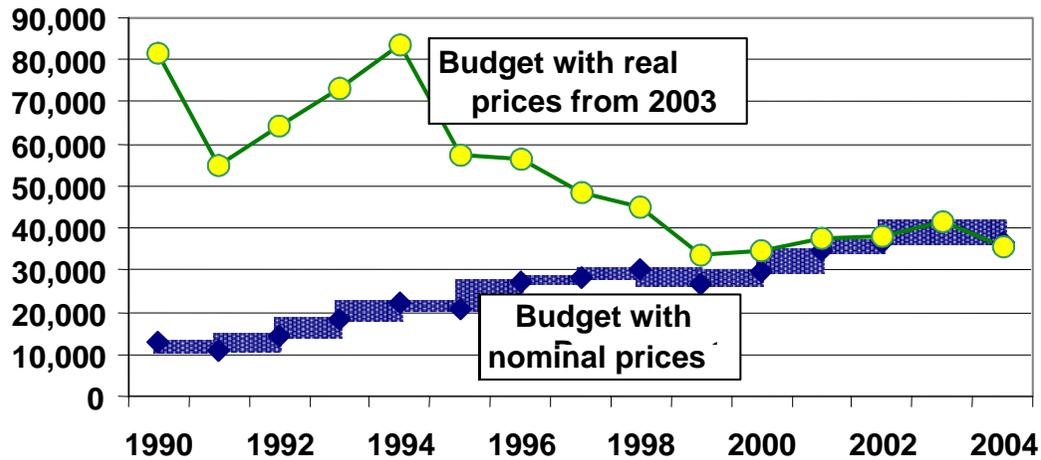
10. The alleged advantages for consumers based on greater access to less expensive, imported food products turned out to be pure rhetoric. From 1994 to 2004, the prices in the basic food basket increased by 292%, while prices paid to agricultural producers rose only 224%, according to statistics from the Mexican government. In other words, mass importing has placed more pressure on prices for primary agricultural products than on consumer prices, and the latter continue to increase (Figure 6).

**Figure 6**  
**Mexico. Prices of basic food basket and prices paid to agricultural producers, 1994-2004 (1994=100)**



Source: Authors' calculations based on data from the President's Office, *4o Informe de Gobierno*, September 1, 2004. Annex, pp. 239-240.

**Figure 7**  
**Mexico. Real budget for development of agricultural and fisheries activities, 1990-2004 (millions of pesos)**



Sources: 1990-2002; Mexico, President's Office, *3er Informe de Gobierno*. September 1, 2003, p. 250. 2003 and 2004; *Comisión Intersecretarial para el Desarrollo Rural Sustentable*. Deflated with INPC.

11. When the Mexican government signed NAFTA at the end of 1992, it was fully aware of the asymmetries between Mexico and its future trade partners—and consequently, it should have seen the necessity to implement policies for narrowing the existing gaps through an increased budget and new programs, in accordance with the reality of NAFTA. Instead, the budget for the agricultural and fisheries sectors decreased constantly, in real numbers, during the period from 1990 to 2004. This budget dropped from 83.534 billion pesos in 1994, when NAFTA went into effect, to less than 42% of that amount by 2004. To make matters worse, in 2001 the Mexican government did not conduct the Agricultural Census which had been conducted every ten years since 1930 to provide the necessary information for appropriately focusing government actions in the agricultural sector. Consequently, agricultural policy is increasingly carried out blindly, and disconnected from reality.

### Prospects for the year 2008

NAFTA has triggered the most drastic and profound transformation in the history of agriculture in Mexico. The present and future for this sector have been totally changed, and the option of continuing to live in the country's rural areas has been

placed into question for the great majority of producers. Organizations of small, medium and business-level producers of corn, soybeans, wheat, beans, rice, potatoes, cotton, apples, pork, cattle, etc. —representing most of Mexico's agricultural and livestock producers— are calling for NAFTA's suspension, or at least its renegotiation, since no more than a thousand individuals have benefited from NAFTA,<sup>22</sup> while millions are on the losing end.

As of January 1, 2003, the previous minimal tariff protection was canceled for all imported agricultural products, with the exception of corn, beans, powdered milk and sugar, and the protection for these latter products is “on paper” only.

Among the products most negatively impacted since 2003 are the following:

- Poultry
- Pork
- Potatoes
- Animal fats
- Barley
- Apples
- Fresh cheeses

Also, since January 2003, poultry and pork meat production is no longer protected through import quotas. According to well-informed sources at *Apoyos y Servicios a la Comercialización Agropecuaria* (ASERCA),<sup>23</sup> there are reports that during recent years, importers of poultry and pork meat requested up to ten times more than the negotiated, tariff-free quota allowed. A dramatic increase in the importing of these products is expected, and will not only negatively impact Mexico's poultry and pork sectors, but also the beef-producing sector. Already in the fall of 2002, many cattle ranchers in the states of Tabasco and Veracruz were liquidating their herds and no longer investing in this activity. The importing of meat also negatively impacts the production of animal feed, for which the national demand is constantly decreasing.

Protection will also disappear for barley and malt production, which could turn Mexico into a beer “outsourcing” country.

Already free from tariffs is an incredible list of primary and processed products including the following: rice, tropical fruits, wheat, edible by-products, even

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<sup>22</sup> Agroindustrialists producing beer and tequila; producers and packers of export vegetables and tropical fruits; importers of meat, grains, fruit and inputs.

<sup>23</sup> <http://www.infoaserca.gob.mx>

coffee! (toasted and processed), dairy products (except powdered milk), milled products, fresh grape wines, canned and other processed goods, tobacco, vegetable oil and fats, copra, and sheep (meat and live animals).

The year 2004 brought a slight respite for the difficult situation confronting Mexico's agricultural sector. The scarcity of grains at the international level has impacted prices, and imports are not increasing as projected. Also, the cases of "mad cow disease" in Canada and Mexico have forced the Mexican government to close the border, temporarily promoting domestic production.

In addition, the United States will make it increasingly more difficult for Mexican products to enter its market. Regulations in the area of food sanitation represent a 10% increase in production costs for vegetable exporters in Mexico, without any increase in price. There are also new provisions in the Biosecurity Act in the United States.

In short, the reduction in tariffs obtained through NAFTA has been completely substituted by a new non-tariff barrier.

We would conclude this section by stating that after ten years of NAFTA, it has not fulfilled the expectations created by the governments that signed this agreement, and the dismal results predicted by diverse researchers and analysts have become a reality.

## **Proposals**

Before developing a proposal regarding NAFTA, it is important to consider a key antecedent in trade relations between Mexico and the United States: the role of the US Congress in the case of transportation. Despite the fact that NAFTA established the unrestricted movement of vehicles between Mexican and US territories beginning in 1995, our neighboring government used a moratorium to prohibit Mexican vehicles from entering the United States. After many years of controversy, on February 6, 2001, the World Trade Organization (WTO) issued a resolution in favor of Mexico. On June 5, 2001 President Bush finally gave authorization (on paper) for Mexican trucks to enter the country and ordered the lifting of the 1995 moratorium. However, the US Congress approved US access for Mexican cargo trucks only beginning in 2002, and then only under the condition that sufficient inspectors are contracted. On August 1, 2001, however, it violated the agreement, calling for a blockade, using the justification of the insecurity to be caused by Mexican trucks

on US highways.<sup>24</sup> And so, the US Congress has set an example that could be followed by its Mexican counterpart. Despite NAFTA's open market policies, the United States forcefully protects its transportation sector, its jobs and its national interests.

In retrospect, the strategic role played by agriculture as a source of employment, in producing food, and protecting the environment, with all its social and cultural implications, cannot be denied. Since there are no compensation funds to lessen the effects of NAFTA, and since no amount of budget money allocated will ever be enough to allow Mexico's agricultural sector to be competitive with the agricultural sector in the world's most powerful country, and in consideration of Article 21 of the WTO (on the consequences of a Treaty) and Article 89 of Mexico's National Constitution, Section 10 (on unequal legal status, see Annex), and given the faculties granted by the nation to the legislative branch, it is proposed that the NAFTA Chapter on Agriculture should be reviewed. Mexico should not give up its national sovereignty and should take advantage of all the provisions stipulated in its Constitution.

This proposal is not only justified by the unfavorable consequences to Mexico's agricultural sector already caused by NAFTA, but also due to the threat of potential future damages.

The proposed review and partial suspension of NAFTA in the interest of protecting the country's most sensitive products will affect some individual interests, especially those of importers and intermediaries for agricultural products. However, as we have demonstrated, the benefits for consumers as argued in official circles have not proven to be true. And, Mexican exporters will not experience negative effects as long as they make use of the *latitudes for maneuvering* permitted by the WTO *for developing countries*.

It is also important to take into consideration the direct and indirect monetary costs for the entire Mexican society that have already been generated by trade liberalization, as well as those still to come. The liquidation of BANRURAL alone will cost the overall Mexican society 42 billion pesos (an amount that surpasses the agricultural budget for the entire year of 2002). BANRURAL's failure cannot be ex-

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<sup>24</sup> Information from Marín López, Efrén, 2002, *La solución política: ¿Opción a la insuficiencia de los capítulos 19 y 20 del TLCAN?*, doctoral dissertation, UAM, Xochimilco, Mexico City, December, pp. 90-102.

plained solely by administrative errors, but rather due to the lack of profitability in agriculture as a result of the State policy of abandoning its responsibilities.

Finally, the Mexican State implemented the policy of economic liberation and signed NAFTA —without democratically consulting the citizenry— and now it must take responsibility for the damage caused and must implement policies that benefit the overall society. It cannot remove itself from the consequences of its policies, and above all, it must be clear about its responsibility for the well-being of its population.

## ANNEX

**Table 1A**  
**Asymmetries among Mexico, United States and Canada**

	Mexico	United States	Canada
Population (1,000) <sup>1</sup>	100,368	285,926	31,015
Rural population (1,000) <sup>1</sup>	25,555	64,539	6,535
Agricultural population (1,000) <sup>1</sup>	23,064	6,162	766
Population density (inhabitants per sq. km) <sup>2</sup>	51	30	3
Surface area (1,000 ha) <sup>2</sup>	195,820	962,909	997,061
Arable land (1,000 ha) <sup>2</sup>	27,300	179,000	45,700
Irrigated land (1,000 ha) <sup>3</sup>	6,500	22,400	720
GNP in billions of US\$ (1999) <sup>4</sup>	428.8 (place 12)	8,351.0 (place 1)	591.4 (place 9)
GNP per capita (US\$ 1999) <sup>4</sup>	4,400 (place 71)	30,600 (place 8)	19,320 (place 29)
GINI index <sup>4</sup>	53.7	40.8	31.5
Percentage share of income, highest 10% <sup>4</sup>	42.8	30.5	23.8
Competitiveness ranking, 2001 <sup>6</sup>	51	2	11
Growth competitiveness ranking, 2001 <sup>6</sup>	42	2	3
Public expenditure on agricultural re- search/agricultural GNP (%)	0.52	2.60	
Public expenditure on education (% of GNP) <sup>4</sup>	4.9	5.4	6.9
Tractors per 1,000 agricultural workers <sup>4</sup>	20	1,484	1,642
Agricultural wages (US\$ per year), 1995/98 <sup>5</sup>	908	n.d.	30,625
Agricultural productivity (1995 US\$ per agri- cultural worker) <sup>4</sup>	2,164	39,001	n.d.
Annual deforestation (annual % change) <sup>4</sup>	0.9	-0.3 *	-0.1*
Producer support estimates (% of value of pro- duction) 2001 <sup>7</sup>	22	36	25
Food imports, 1998/2000, value (1,000 US\$) <sup>8</sup>	8,935,732	43,354,622	11,046,062
Food exports, 1998/2000, value (1,000 US\$) <sup>8</sup>	7,157,371	55,508,420	15,253,898
Trade balance, value (1,000 US\$) <sup>8</sup>	-1,778,361	12,153,798	4,207,837
Corn yields (t/ha) <sup>9</sup>	2.50	8.55	7.15

n.d. signifies not defined, \* negative value signifies deforestation.

Sources:

- 1) <http://apps1.fao.org/servlet/XteServlet.jrun?Areas=33&Areas=231&Areas=138&Items=3008&Elements=511&Elements=551&Elements=571&Years=2001&Format=Table&Xaxis=Years&Yaxis=Countries&Aggregate=&Calculate=&Domain=SUA&ItemTypes=Population&Language=espanol&UserName=>
- 2) <http://apps.fao.org/servlet/XteServlet.jrun?Areas=33&Areas=231&Areas=138&Items=1421&Elements=11&Elements=121&Elements=61&Years=2000&Format=Table&Xaxis=Years&Yaxis=Countries&Aggregate=&Calculate=&Domain=LUI&ItemTypes=LandUse&Language=espanol&UserName=>
- 3) FAO,  
<http://apps1.fao.org/servlet/XteServlet.jrun?Areas=33&Areas=231&Areas=138&Items=1423&Elements=51>

## NAFTA's Impact on Mexican Agriculture: An Overview

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&Calculate=&Domain=LUI&Item Types=Irrigation&Language=  
espanol&UserName=

- 4) World Bank, World Development Report 2000/2001. *Attacking Poverty*. Washington, DC, 2001.
- 5) World Bank, World Development Indicators 2002. Washington, DC, 2002, pp. 64 and 65.
- 6) World Economic Forum. *The Global Competitiveness Report 2001-2002*, Table 1. Overall competitiveness ranking, p. 15, [http://www.weforum.org/pdf/gcr/Overall Competitiveness Rankings.pdf](http://www.weforum.org/pdf/gcr/Overall_Competitiveness_Rankings.pdf),
- 7) OECD, *Agricultural Compendium*, Producer and Consumer Support Estimates 2002, database, Beyond 20/20 Browser Files. Paris, France, 2002.
- 8) FAO, <http://apps1.fao.org/servlet/XteServlet.jrun?Areas=33&Areas=231&Areas=138&Items=1882&Elements=62&Elements=92&Years=2000&Years=1999&Years=1998&Format=Table&Xaxis=Years&Yaxis=Countries&Aggregate=&Calculate=&Domain=SUA&ItemTypes=Trade.CropsLivestockProducts&Language=espanol&UserName=>
- 9) <http://apps1.fao.org/servlet/XteServlet.jrun?Areas=33&Areas=231&Areas=138&Items=56&Elements=41&Years=2001&Years=2000&Years=1999&Format=Table&Xaxis=Years&Yaxis=Countries&Aggregate=&Calculate=&Domain=SUA&ItemTypes=Production.Crops.Primary&Language=espanol&UserName=>

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