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The Commanding Heights of Mexican Agriculture

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V.I. Lenin, in defense of communism, often defended governmental control over the “commanding heights” of the means of production. Upon consolidation of the revolution in the 1920s, Mexican leaders wholeheartedly adopted Lenin’s approach to government intervention in the economy. The revolution was driven, in part, by a widely accepted need for land reform. The revolutionaries proceeded to restructure Mexican agriculture and adopt socialistic policies which promoted centralized planning. Also, state-owned enterprises (SOE’s) began to participate in everything from the production, processing, distribution and commercialization of agricultural products. In recent years, policies have changed and Mexican agriculture is currently going through a dramatic process of reformation.

SOE’s formed an important link in the government’s “full employment” strategy. The one-party power structure which emerged from years of instability has been personified by over 70 years of continuous rule by the Institutional Revolutionary Party (PRI). After the revolution, private farms were allowed to continue. However, many on the losing side of the revolution were forced to forfeit their lands. The PRI rewarded the poor *campesino* revolutionaries through the creation of *ejidos*. An *ejido* is a communal farm based on the popular Soviet model of the time. For over 70 years the PRI-dominated system protected Mexican farmers from outside competition and used agriculture support mechanisms as a

way to garner votes and maintain political control.

Mexico’s entrance into the global economy highlighted the inefficiencies of the country’s closed-market policies. Mexican farmers and governmental officials have been forced to rationalize past practices in an effort to compete in today’s international markets. This paper will focus on the changing role of the government over the “commanding heights” of Mexican agriculture. Special attention will be paid to the current strengths of the Mexican *campo*, the effects of free trade and, finally, barriers which inhibit the modernization of Mexican agriculture.

Comparative Advantages of Mexican Agriculture

Mexico has been blessed with some of the most fertile land and abundant natural resources of any country in the world. Mexico’s northern deserts and central plains support year-round agriculture. This sometimes harsh environment allows Mexican farmers to service the U.S. consumer market by taking advantage of strategic production windows. For example, Mexican farmers export a large percentage of the fruits and vegetables consumed by Americans during the winter. Mexico also is strong in the area of exotic fruits which are gaining in popularity in the U.S. and Europe. Finally, Mexican farmers have an advantage over many other foreign producers as a result of the country’s proximity to the U.S. The comparative advantages bestowed on Mexico by its climate, product diversity and geographic location have presented growth opportuni-

ties for the country as it embarks on an aggressive economic liberalization program. Years of government control and repudiation of market forces have led to an inefficient system which is currently undergoing substantial reformation.

Economic Liberalization in Mexico— Opportunities for Growth

After the devaluation of 1982 and the ensuing debt crisis, Mexico's leaders realized that the past model of governmental control of the "commanding heights" of the economy was unsustainable. The leaders urgently needed to rationalize the existence of massive SOE's and generous subsidy policies which served political rather than economic objectives. The government was involved in every aspect of the economy and industry was not subjected to the pressures of outside competition. This was also true in the agricultural sector which was characterized by heavy government price support subsidies, irrational state-run trading companies and small inefficient farmers who were not accustomed to competing with outside companies. All of this began to change in 1986.

Mexico began the painstaking process of modernizing its economy in 1986 when it became a member of the General Agreement on Tariffs and Trade (GATT). Tariffs on foreign goods would be lowered and competition would become a way of life. For the first time since the days of Porfilio Diaz, foreign investment was encouraged through the promulgation of the 1992 Foreign Investment Law. Subsequently, Mexican industry, including the agriculture sector, would be forced to compete with companies from the U.S. and Canada under the auspices of the North American Free Trade Agreement (NAFTA). NAFTA, by opening the doors to a flood of mostly U.S. products, has forced the entire Mexican economy to take drastic measures designed to promote competitiveness. This change in policy has given rise to colossal efforts in the areas of efficiency, quality control and "lean thinking."

Mexico has also moved aggressively to ne-

gotiate free trade agreements with a long list of countries. Agreements have been signed with Colombia. As a result, Mexico has moved from a closed—almost monopolistic—economy characterized by heavy governmental participation to one of the most open trading environments in the world. As is customary, free trade has created winners and losers as well as supporters and detractors.

For Mexico, free trade has resulted in impressive export growth, the attraction of more foreign direct investment (FDI) and increased imports. Mexico is now the world's eighth largest exporting country with 1999 exports totaling \$126 billion. FDI has also increased substantially as a result of free trade—rising from \$3 billion in 1993 to \$10.5 billion in 1999. However, imports of foreign goods have also increased dramatically, thus subjecting local industry to greater competition. The effects of free trade can best be demonstrated by the impressive growth of trade between the U.S. and Mexico. The U.S. does more business with Mexico than with Germany and England combined with total bilateral trade reaching \$200 billion in 1999. Mexico is now the U.S.'s second leading trading partner, surpassed only by Canada.

Free trade has also reverberated throughout the agricultural sector. Since 1994, Mexican agricultural exports to the U.S. have grown by over 70 percent. In 1993, 8 percent of all U.S. agricultural imports came from Mexico. That total increased to over 13 percent in 1999 placing Mexico as the second leading exporter of agricultural products to the U.S. Mexico represents approximately 91 percent of all U.S. cucumber imports, 72 percent of asparagus as well as 60 percent of cantaloupe and watermelon. Mexico is playing an ever-increasing role in the U.S. consumer market.

NAFTA has also facilitated the export of U.S. agricultural products. Mexico is a substantial importer of U.S. agricultural products. With over 100 million inhabitants and rising levels of purchasing power, Mexico is one of the fastest growing export markets for U.S. agricultural products. Over 50 percent of Mexico's population is under the age of 20. Such a young population has led to voracious con-

sumption of U.S. grains, meats and processed foods. In fact, between 1993 and 1999 Mexican imports of beef from the U.S. have risen over 77 percent while wheat and corn exports increased over 88 percent during the same period.

On balance, Mexico has been particularly successful in the areas of winter vegetables, coffee, mangoes, cucumbers, tomatoes, cantaloupes, and watermelons. On the other hand, the U.S. has an apparent advantage in the production of wheat, corn and beef.

Currently, over 80 percent of all of Mexico's exports are to the U.S., thus demonstrating the country's dependency on the American consumer market. As a result, Mexico is also moving aggressively to diversify its international trading relationships. In November 1999, Mexico signed the text of a free trade agreement with the European Union (EU). The agreement is expected to enter into force in June, 2000. The agreement with the EU will allow Mexico to diversify its existing export markets and attract more FDI from Europe. Nevertheless, the current level of trade between the U.S. and Mexico, especially in the agricultural sector, far outstrips future trade between Mexico and the EU. Therefore, the importance of the agreement with Europe will not be demonstrated through large increases in trade flows and investment but as a symbol of Mexico's commitment to creating an open and competitive work environment controlled by transparent rules. This enthusiasm for competition, quality and efficiency is also helping redefine the future of the Mexican agriculture.

Challenges Facing Mexican Agriculture

In an effort to improve social conditions in rural communities and reach higher levels of agricultural productivity, the Mexican government has instituted several important reforms. Despite these impressive efforts, much remains to be done. This section will highlight four challenges facing Mexican agriculture. Without comprehensive solutions to these challenges it will be difficult for Mexico to solve endemic problems of rural poverty and agricultural inefficiency.

Agricultural Subsidies

The method by which agricultural subsidies have traditionally been applied has led to systemic inefficiencies. The government has traditionally awarded subsidies directly to individual farmers instead of to processing, distribution and commercialization activities. More support for the "down stream" activities would lead to higher earnings for Mexican businesses and decrease dependence on the importation of processed foods from the U.S. A vigorous "down stream" market requires significant investments in infrastructure and commercialization networks. For example, in the state of Sinaloa, 300 tons of tomatoes are thrown away or used as feed each day due to inefficient distribution and commercialization systems. The areas of food processing and distribution—such as cold storage—represent attractive niche markets for foreign investors.

Many have argued that the policy of granting subsidies directly to the farmer is designed to meet political rather than production objectives. The vast majority of people (and voters) participating in the agricultural sector in Mexico are individual farmers. Direct subsidies provide for greater voter loyalty and political control. Unfortunately, the diversion of limited resources directly to the farmer deprives the "down stream" activities of the support they need to "gear up" for international competition. More attention should be paid to the areas of processing, distribution and commercialization. However, it is encouraging to note that governmental aid programs have been making a gradual shift from crop support to direct production assistance. Thus, instead of granting a farmer a fixed subsidy for a crop, the farmer is given assistance to purchase equipment and supplies.

Poverty and Education in Rural Communities

The benefits of free trade and globalization have not trickled down to the vast majority of Mexico's rural population. Small farmers and *ejiditarios* have been called upon to compete with large multinational farming conglomer-

ates. Competition, combined with drought and years of neglect, has led to difficult times for agricultural workers. Rural poverty is extreme in several parts of the country, contributing to widespread sentiment of social discontent. Literally hundreds of thousands of *campesinos* have been forced to abandon their native lands in search of opportunities in the cities or in the U.S. Rural “refugees” engage in activities ranging from panhandling in the streets of Mexico City to assembly work in thriving border *maquiladoras*. Also, the vitality of the U.S. economy and difficulties in agricultural sector have served as a magnet for undocumented workers. The above factors demonstrate that rural poverty in Mexico is not an isolated problem but rather a contributing ingredient to social discontent, overcrowding in border cities, and an increase in the flow of illegal aliens to the U.S.

Greater participation in processing, distribution and commercialization of agricultural products would lead to higher salaries and improved standards of living for Mexico’s rural poor. Greater levels of education are required to obtain a job in these value-added segments of the production chain. Unfortunately, the Mexican educational system is not adequately preparing students to seek employment in “down stream” activities.

High Operating Costs

Running a farm in Mexico is much more expensive than in the U.S. While it is true that labor in Mexico is cheaper than the U.S. and Canada, just about everything else—credit, fertilizers, pesticides, machinery, water, and seeds—is much more expensive. For example, cultivating one hectare of corn in Mexico is 300 percent more expensive than in the U.S. Likewise, diesel prices are 250 percent higher. Mexico’s inadequate infrastructure further increases transportation and warehousing expenses while also contributing to the unnecessary spoilage of product and late delivery.

The acute lack of competitive financing also creates difficulties for Mexican farmers. After the 1994/95 crisis, Mexican banks are simply unwilling or do not have the means to

make loans to most farmers. Also, Mexican farms tend to be much smaller than operations in the U.S., which does not allow farmers to take advantage of economies of scale. The fact that Mexican farmers are now forced to compete with their North American neighbors while suffering from comparatively higher operating costs has prompted many to advocate the need to restrict free trade until costs begin to fall. Such opposition could eventually lead to further trade disputes.

Transformation of the Ejido Regimen

In 1992, then president Carlos Salinas ferried through the congress a change to Article 27 of the Mexican constitution. This change permitted the disenfranchisement of the country’s communal farms, or *ejidos*. This represented a fundamental change in social, economic, urban development and agricultural policies.

A new approach to the communal farms was necessary since poverty in the *ejidos* was well above national levels. *Ejidors* were inefficient and a drag on overall agricultural production. Decisions as to what crops to plant, pricing and where to buy vital supplies were political rather than business decisions. In the early 1990s, policy makers came to the conclusion that the past socialist regimen could not lift the *ejiditarios* out of poverty. After almost seven generations of often conflicting policies such as massive subsidies and then egregious neglect, the *ejidos* were in desperate need of a large dose of market reforms.

The 1992 changes gave the *ejiditarios* the right to break up their communal lands into individual parcels and then sell them. The process of incorporating the *ejiditarios* into an efficient agricultural system has been slow and painful. The legal regimen surrounding *ejido* disenfranchisement is confusing, time consuming and devoid of legal certainty. As a result, many of the investment opportunities between *ejiditarios* and the private sector have not materialized.

The *ejidos* are also presenting challenges for orderly urban development. Many of Mexico’s principal cities are surrounded by *ejidos*. As the cities grow and come into contact with

the bordering *ejidos*, problems have arisen due to the lack of legal certainty surrounding former *ejido* lands. Without a clear legal environment, the *ejidos* will continue on the sidelines of agricultural reform.

Conclusion

Mexico is taking important steps to modernize its agricultural sector. Free trade has allowed the country to increase its exports while also subjecting national producers to greater competition. As in most countries, the process of adaptation to the rigors of free trade is producing mixed results in Mexico. From the Mexican perspective, winners in the agricul-

tural area include fruits and vegetables while losers include wheat, corn and beef. Expanding free trade through agreements such as the one with the EU will further subject Mexico to greater outside competition, forcing the country to build on its current strengths such as geographic location and strategic production windows. Mexican agriculture has enormous possibilities. Mexico's rich natural resources and the government's commitment to agricultural reform have set the stage for future growth. Nevertheless, several challenges must be addressed before Mexico will be able to take advantage of its production capabilities and provide for higher standards of living for its rural poor.

