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AGRICULTURAL POLICY REFORMS AND HARMONIZATION/ CONVERGENCE/COMPATIBILITY: THE CASE OF MEXICO

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This paper is divided into three parts. The first summarizes the main conclusions of Sumner and Hallstrom's paper "Commodity Policy Compatibility with Free Trade Agreement" and makes some suggestions for further research. The second part presents some thoughts concerning Mexico's domestic agricultural policies in relation to the authors' analysis on the theme of the Workshop. The discussion finishes by presenting the reasons why the exclusion of domestic agricultural commitments in NAFTA was sensible for Mexico.

CONTRIBUTIONS OF SUMNER AND HALLSTROM'S STUDY

The paper addresses directly two of the objectives of this workshop, that is the authors discuss the compatibility and harmonization of policies among NAFTA countries.

In relation to the issue of compatibility the authors argue that, by itself, a free trade agreement (FTA) based on liberalization of border measures will be capable of solving the existence of incompatibilities between internal policy programs and free trade; they conclude that the changes in border measures that countries in a FTA commit to follow will put pressures (economic and/or legal) on internal programs. So they favour the strategy adopted in the NAFTA and criticize trade negotiations that include binding commitments on domestic policies (the latter being the approach followed in the Uruguay Round for Agriculture).

As for the case of harmonization, they mention that this purpose is far beyond a FTA. They also argue that harmonization can reduce both trade and policy efficiency. Their view is based on the experience of the U.S. dairy program, which shows that policies that vary geographically are compatible with open borders.

Further on the question of compatibility, Sumner and Hallstrom criticize the inclusion of internal policy commitments in trade negotiations on two main grounds: analytically and on the zero effect on agricultural trade of the agreements reached in the Uruguay Round.

I have a comment with respect to the analytical component of their argument that shows the effects of free trade on the domestic economics of common commodity programs. The framework is simple, stylized and illustrated by diagrams. It assumes two countries (only one of which, "the home country", has an internal commodity program), and standard supply and demand curves. In addition, the introduction of the effects of internal intervention before trade is quite stylized. I think that these features provide a very clear discussion of FTA and compatibility for specific countries and for other ones different from Canada, Mexico and the United States. However, its simplifying assumptions may limit the robustness of their conclusions. That is, it could be possible that if we introduce into the analysis a third country, the rest of the world, trading partners with domestic distorting policies, and market power, the conclusion about the pressures that border liberalization will put on internal policies may not hold any more.

Finally, it would have been useful if the authors had presented more on domestic policies and dairy trade in NAFTA. As well as being relevant for the discussions in this Workshop, it is not clear in the text whether or not they favour changes in Canadian and U.S. dairy policies. It would also be very interesting to include Mexico into the picture since it is a major importer of dairy products.

POLICY COMPATIBILITY AND NAFTA: THE CASE OF MEXICO

I found the analytical framework and conclusions of Sumner and Hallstrom's paper to be quite enlightening for thinking about Mexico's recent economic reforms, its commitments in NAFTA and the strategies that it can pursue. This is particularly so for their discussion of compatibility (section 2 of the paper). In contrast to the earlier comments on the possible limits of the analysis, their two country scheme is an appropriate approximation for Mexico because the weight of the United States in its agricultural trade is overwhelming.

Sumner and Hallstrom do this themselves by suggesting that their third and sixth cases apply, respectively, to the former Mexican policy of producers' support prices for basic grains and consumption subsidies, and to PROCAMPO, the current policy of direct income transfers to the farmers that produce these crops. PROCAMPO is the policy that the Salinas and Zedillo's Administrations have adopted as a way to go from intervention to the liberalization of the domestic agricultural basic grains' sector. Two of the reasons explaining this policy of transition was NAFTA negotiations and the burden on Mexico's public budget of the guaranteed prices and consumption subsidy's programs. The latter reason is consistent with the results of the analysis of Sumner and Hallstrom.

There are two other cases of the authors' analytical proposal that are relevant for Mexico. Case one can be used to frame one of the arguments of those, in the Mexican public opinion circles, that were against including maize in NAFTA. Their position is that with the elimination of domestic guaranteed price of maize, together with the maintenance of U.S. agricultural subsidies, will create a huge (and artificial) increase in Mexico's imports of the

grain. Of course, in this aspect of the argument, those opposed to including maize in NAFTA ignore Mexico's maize producers competitive stand vis a vis the United States, even without subsidies. In addition, they included in their argument the question of food self-sufficiency.

In the case of Mexico's domestic agricultural policies, it is important to say that in addition to PROCAMPO, the Administration of President Zedillo has included PRODUCE, a governmental scheme to subsidize agricultural producers.¹ We can frame this program in case two of Sumner and Hallstrom's paper.

In principle, and as stated in the sixth case of the paper, PROCAMPO poses no limit to trade flows. On the other hand, PRODUCE could be taken as an implicit trade barrier that might be subject to trade disputes (this is specially so for those commodities competing with U.S. production such as horticultural goods). However, and at the same time, the lack of explicit commitments in NAFTA about domestic programs has allowed the current government of Mexico to include PRODUCE in their agricultural policies. This possibility could be added to the arguments of Sumner and Hallstrom in favour of concentrating a FTA on border measures since it gives more room of action to national governments to pursue their rural development objectives.

We have shown that programs such as PRODUCE are required in Mexico, because they have better results with respect to other "neutral" income transfers as PROCAMPO in rising productivity and income in rural areas (Taylor, J.E., A. Yunez-Naude and S. Hampton, forthcoming). PROCAMPO can lower the exports to Mexico of its NAFTA partners, but programs as PRODUCE definitely reduces more than PROCAMPO the pressures to international migration. To point this out is relevant to this Workshop since it could help to improve understanding among advisors and policy makers of Mexico's North American trade partners.

On Sumner and Hallstrom's doubts about pursuing the harmonization of agricultural policies between NAFTA members, I add the following. At least for the time being, it will be unwise for Mexico to follow this objective. As argued in the final part of my discussion, this is so because the enormous heterogeneity of its countryside and the lack of a clear understanding of the effects of economic reforms on the components of rural Mexico require time and flexibility in the design of its agricultural policies.

¹ PRODUCE forms an important part of the "Alianza para el Campo", the governmental agricultural program for 1995-2000. It has three components: 1) the "capitalization" program that gives subsidies to those producers buying machinery and equipment for irrigation and fertilization, as well as for those establishing grass areas for livestock; 2) the "productive conversion" program, that helps those farmers that change their activities from annual crops to plantations; and 3) the program for the protection of natural resources, which supports those projects that promote a more rational use of land and water.

REFLECTIONS ABOUT MEXICO

Mexico was one of the first Latin American countries to follow a radical change in its development strategy: from deep government intervention to economic liberalization. In fact, beginning with the debt crisis of 1982, the Mexican governments have radically reoriented its development policy from import substitution to outward orientation.

In the agricultural area this has meant — among other policy changes: the abolition of import controls of “basic staples”; the elimination of producers’ price supports; the reduction or elimination of State owned enterprises activities in buying, importing, storing, processing and selling “basic crops” (corn, beans, rice, wheat, oilseeds and barley); the reduction of government subsidies in rural credit and insurance; and the privatization of the irrigation system and of property rights in land (the details are present in Yunez-Naude, A., 1995). These changes were done before NAFTA and are in line with the process of compatibility discussed previously.

The last two Administrations and the current one expect that, with economic liberalization, macroeconomic stability is going to be achieved and, together with NAFTA and the increase in foreign investment promoted by this trade agreement, a new vigorous stage of economic development will arise.

With respect to the agricultural sector, the reduction of State intervention is expected to lead to the efficient use of the resources of rural Mexico; the market forces will reallocate them to those activities in which the country has comparative advantage. The governments have not been too worried about the consequences of this change on food self-sufficiency and on rural emigration. PROCAMPO and PRODUCE do not have these purposes, although they may reduce the pressures for rural emigration.

Most of the studies, discussions and official expectations on the effects of the reforms and NAFTA on the agricultural sector are too aggregated and ignore the enormous heterogeneity prevailing in Mexico’s countryside. They also ignore the fact that most of maize and bean production — the basic foods in Mexicans’ diet — is done not by modern agriculture, but by family units of production and consumption, whose members are also engaged in activities other than the production of staples (internal and international migration, earning wages in regional labour markets, and income in commerce and livestock production, etc.).²

The consideration of rural heterogeneity as a fundamental feature of the agrarian structure of Mexico has led us to conclude that the effects and size of structural change in agriculture depend on the type of producers considered and on the linkages they have with the product and labour markets. On the contrary, most of the studies and official views on this respect assume the existence of complete markets in rural Mexico, and, furthermore, that

² Such heterogeneity is present both at the microeconomic and regional levels. Modern farms (located mainly in the North and West Coast of Mexico) coexist with traditional and intermediate farms (most of them in the East, Center and South West of the country).

these markets are not segmented and/or that economic agents face no transaction costs. So, their results and policy recommendations can only be applicable to modern agriculture and, at the most, to a portion of intermediate farmers. Consequently, the estimated or expected effects (both, positive and negative) of policy reforms on agriculture have been overestimated.³ At the same time, the assumption that all relevant markets are present and well functioning has limited the study of the effects of liberalization on traditional agriculture, and, more importantly, has meant the lack of serious consideration of them in policy design.⁴

There is evidence that liberalization and the current economic crisis of Mexico have led to a “process of regression” of peasant households whose income depends heavily on the domestic labour markets. The recent developments of the Mexican economy have also increased emigration to the United States and the pressure on farmers' natural resources.⁵ To this the growth of rural political unrest must be added.

To avoid these consequences, program addressing directly the peasantry are required (for example, investments in technical education, infrastructure, etc.). This, together with the positive effects that PRODUCE will bring about, leads me to conclude that — in addition to Sumner and Hallstrom arguments — it was appropriate not to include internal agricultural policy liberalization commitments in NAFTA.

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³ This is shown in Taylor and Yunez (December 1996) when comparing their results on this respect using a village computable general equilibrium model (CGE) with those obtained by Nationwide CGEs. De Janvry, *et al.* (December 1995) also find this type of discrepancy using a different modeling approach and data.

⁴ The exception is SOLIDARIDAD. However, the aim of this program — designed and put into practice since the first years of Salinas de Gortari's government — is to combat poverty in rural and urban areas and not to promote productivity.

⁵ In their study of the changes of Mexican ejidal sector before and after the Ejidal Reform, de Janvry *et al.* (August, 1995) conclude that the subsistence producers have experienced a process of “technological regression”, that is the recurrence by them of more traditional and less productive technology. Field work conducted in current research in the Sierra of the State of Puebla shows that construction workers, being incapable of finding a job in the cities of the region, have to return to the villages of their origin, increasing the burden on natural resources of their family's lands.

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