

Unfulfilled Promises

MEXICAN BARRIERS TO U.S. AGRICULTURAL EXPORTS

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The author:

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Testimony:

For years free trade has generated fears and political demagoguery on both sides of the U.S.-Mexican border. Ross Perot was not the only politician who warned of a giant sucking sound of jobs. These warnings were also quite common in Mexico when the North American Free Trade Agreement (NAFTA) was being negotiated in the early 1990s.

The demagoguery and the fears have not disappeared. In Mexico, a number of special interest groups and political parties have organized a movement that is putting pressure on the government to renegotiate NAFTA because, they claim, free trade is responsible for the troubles affecting Mexico's agriculture. The constant bombardment of information by these groups has led 32 percent of Mexicans to believe that Mexico's agricultural is in trouble because of NAFTA.¹

The hard information available, however, actually shows that NAFTA has been good for all signatory countries--the U.S., Mexico and Canada. Overall trade among them rose 85 percent between 1993 and 2001, at a time when world trade expanded by 66 percent.² Mexico's foreign trade rose at an even faster pace

¹ *Reforma*, February 1, 2003.

² "A diez años del Tratado de Libre Comercio de América del Norte" (Secretaría de Economía; México, 2002).

during this period: 179 percent, which is logical given the fact that Mexico is the least developed of the three countries. Between 1993 and 2002 Mexico's exports to the world expanded from \$52 billion to \$166 billion.³

But in spite of the expansion of Mexico's exports, there was no giant sucking sound of U.S. jobs heading south of the border. In fact, the first years of NAFTA coincided with an unprecedented period of growth and job gains in the U.S. Unemployment not only did not rise but fell to record levels. NAFTA is not solely responsible for this, but the overall increase in trade promoted by it was a factor in the rise in competitiveness of the U.S. economy in the 1990s.

From the start Mexico's agriculture was the most protected sector within NAFTA. The U.S. and Canada opened its doors to agricultural products at a significantly faster pace than Mexico. Tariffs and barriers on 42 percent of Mexico's agricultural products were fully eliminated only in 2003, nine years after the beginning of NAFTA. Mexico, moreover, will continue to get protection on 18 percent of its agricultural imports until 2008. In contrast, 95 percent of all U.S. agricultural imports from Mexico are already free of tariffs and barriers as of 2003.

In spite of this, U.S. and Canadian farmers have benefited from the opening of the Mexican market. Mexico's imports of farm products from its NAFTA partners rose from \$3.5 billion in 1994 to \$5.9 billion in 2001. Indeed, agriculture is one of the few areas of the economy where Mexico has a trade deficit within NAFTA. In 2001 this deficit amounted to \$1.9 billion. But Mexican exports of agricultural products have also expanded within NAFTA--from \$2.6 billion in 1994 to \$4 billion in 2001.⁴

Differences remain. Some are the result of legal lacunae left over from the original agreement--which is the case, for example, in the dispute about sugar and high fructose. The high level of government subsidies paid to farmers in the U.S. remains an irritating issue for Mexican farmers. Due to protectionist pressures from domestic interest groups, moreover, the Mexican government is resorting to anti-

³ "Información oportuna sobre la balanza comercial de México a diciembre de 2002" (Secretaría de Hacienda y Crédito Público; Mexico, January 23, 2003).

⁴ Secretaría de Agricultura y Recursos Hidráulicos, Mexico, 2002.

dumping measures that are often thinly disguised efforts to erect protectionist barriers to U.S. products.

Every product has a history of its own. In the case of sugar, for example, both Mexico and the U.S. have taken questionable protectionist measures and have passed the cost on to consumers. NAFTA, in fact, implied a closing rather than an opening of the Mexican sugar market because of the existing elaborate protection of U.S. sugar companies. Mexico, however, has an extremely inefficient sugar industry subjected to government price controls and to an outdated labor contract that makes innovation and improvements in productivity almost impossible. All of this explains why sugar prices in our two countries are among the highest in the world. We all pay for the price of protectionism.

Pork producers in Mexico have forced the Mexican government to start an anti-dumping suit against U.S. porks. My impression is that Mexico does not stand on solid grounds in this legal action, but the government seems to be buying time for Mexican pork producers. Paradoxically, the same Mexican pork farmers who want special protection are demanding that the Mexican government opens up trade in corn so as to assure them of cheap fodder for their animals.

Corn is one of the main reasons of complaint of Mexican farmers. Although this market is not yet fully open, Mexico is supposed to have a tariff-free import quota of 3 million tons a year. But the country is in fact importing some 6 million tons a year--to the benefit of U.S. and Canadian farmers. Mexican corn producers rightly claim that massive subsidies are at least partially responsible for a lower price of corn in the U.S. Yet they neglect to say that corn subsidies are also very high in Mexico, especially in the northeastern state of Sinaloa where commercial farmers are strongest. Mexican farmers and politicians also choose to forget that the main reason why most Mexican corn is outrageously expensive to produce is because Mexico has fragmented its land in a myriad of minuscule farms with shaky property rights.

The market for beef was opened in Mexico before NAFTA. Now some local producers are pressuring the Mexican government to close the border again. But Mexico continues to import some 25 to 30% of its beef from the U.S. If Mexico

were to close the border, there would be a severe scarcity in the country and prices would go through the roof.

Mexican apple producers from Chihuahua have also sought protection from U.S. Washington apples. The Chihuahua producers demanded and got a minimum price for apples such as it already existed in winter tomatoes. But the minimum price was so high that it allowed Chilean apples to enter the country. Regardless of these maneuvers, Mexico continues to be a major importer of Washington apples--and it is likely to remain so because there is little land in Mexico adequate for apple production.

Clearly we are seeing an upsurge of protectionism in Mexico. It is not that Mexican farmers have been wiped out by free trade, as the anti-free trade movement claims. But some politicians and social leaders are trying to take advantage of a misguided popular perception that free trade has been detrimental to Mexican farmers.

The negative consequences of free trade are easy to portray in the media. A factory or a farm that closes provides vivid human stories for reporters. The benefits of free trade are much wider, but also far more difficult to portray. Falling food prices, which benefit poorer consumers the most, make for unconvincing journalistic stories.

Still, there is little doubt that Mexican farmers have managed to do quite well under NAFTA, especially in some products such as tomatoes and vegetables. NAFTA has opened new markets and it has increased Mexico's agricultural and processed food exports. In some other products, for example corn, Mexico's producers have no chance of being competitive. But the problem lies not in free trade, but in present Mexican legislation that limits rural property rights and does not allow the existence of large, competitive farms. U.S. subsidies, on the other hand, are indeed a problem and generate unfair competition for Mexican farmers.

U.S. farmers have also benefited from NAFTA. Mexican imports have represented one of the fastest growing markets for U.S. agricultural products over the past decade.

The solution to the problems of farmers on both sides of the border is not to engage again in a protectionist war in which everyone would lose, but to eliminate the significant obstacles to free trade that still remain in place. If we truly want to give people a better standard of living, we must continue to dismantle agricultural protectionism in Mexico and the U.S.