The Opening of Mexican Agriculture
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Far-reaching reforms of agricultural policies in Mexico have accompanied the steady opening of the economy to international markets since the mid-1980s, in sharp contrast to a long period in which economic policy was based on import substitution. The agro-food sector now benefits from more reliance on market signals, and a partially liberalised trading regime, although there are still severe structural problems that impede the search for improved efficiency.¹

Mexico’s geographical position favours the production of an enormous variety of agricultural commodities, ranging from maize, wheat and apples to avocados, coffee and mangos. Moreover, Mexico’s agricultural GDP is among the five largest in the OECD area, in terms both of employment and output, and Mexico is a major contributor to agricultural trade. Fruits and vegetables are major cash crops, and their potential for export development remains large. The productivity of agricultural labour has increased over the last decade: GDP from agriculture has increased although employment, at about a quarter, has remained largely unchanged.

Nonetheless, the poor provision of basic infrastructure, the limited development of marketing channels and the poor co-ordination between research, training and extension services are still major impediments to the economic diversification of rural areas, hampering the ability of many farmers to respond efficiently to market signals. Although there appears to be wide disparities in agricultural incomes across regions and sectors, the lack of good and consistent information on producer prices and incomes is an impediment to policy-makers.

Mexican agriculture, moreover, is faced with major structural problems. A large number of farms are small (two hectares or below), producing food only for their own consumption. By contrast, a small number of large-scale commercial farm holdings (more than 50 hectares) account for a large proportion of agricultural output. The problem is not new. After the Mexican Revolution in 1917 the aim of land re-


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One of the aims of the land-tenure reform of 1992 was to bring small-scale holdings together in more viable units by allowing farmers easier access to credit.

Recent Developments

The opening-up of the economy to international competition, in particular by joining the North American Free Trade Agreement (NAFTA), has been one of the most important economic events in Mexico in recent years. The NAFTA is the first regional integration agreement to be signed between advanced industrial nations and a developing nation in which agriculture was included.1 Traditionally, agriculture has been highly protected in international trade, although now all agricultural and agro-food trade between the United States, Canada and Mexico will be duty-free by 2008. The NAFTA is particularly important for Mexican agriculture: nearly 90% of the value of Mexican agricultural exports is destined for its North American neighbours, and over 75% of its agricultural imports originate there. Trade has hugely expanded not only with Mexico’s NAFTA partners but also with other countries in Latin America, especially Chile, with which regional trade agreements have been signed. Through its commitments to open trade in NAFTA, Mexico has taken important steps in the direction of market orientation.

Underpinned by the moves to liberalise trade, Mexican agricultural policy is progressively replacing price-support policies for grains, beans and oilseeds by direct payments to farmers through the programme known as ‘Procampo’. The move towards a system of direct payments decoupled from the production of specific commodities will reduce distortions in production and trade, and will benefit farms which previously produced too little to take advantage of the system of market-price support. An important feature of ‘Procampo’ is that it is intended to be implemented over a fixed period, which will help farmers in their planning decisions. Moreover, the development of property rights through a property register for the entitlement to Procampo payments will provide an incentive for farmers to farm in a more environmentally sustainable way, which could reduce the ‘slash and burn’ practices that were prevalent in the past in some parts of Mexico.

A major new development, building on these reforms, the ‘Alianza para el campo’, announced at the end of 1995, defined the government’s main objectives in agricultural policy for 1995–2000. It consists of a set of specific programmes aimed primarily at improving farmers’ skills and stimulating technological development, with a view to increasing the productivity and competitiveness of Mexican farms. One of the central features of the Alianza for Agriculture is decentralisation: there will now be far more participation of producers and state governments in deciding the kind of research that should be carried out and measures to support the purchase of farm equipment. It is estimated that the global budget of the Alianza was about 1.9 billion pesos.

2. The ejido is a form of land tenure where the beneficiaries own the land, but not as individuals, have the right to use the land.
5. The dollar equivalents given in this article take account of fluctuations in the exchange rate.
6. The Producer Subsidy Equivalent (PSE) is an indicator of the value of the monetary transfers to agriculture resulting from agricultural policies. Both transfers from consumers of agricultural products (through domestic market prices) and transfers from taxpayers (through budgetary or tax expenditures) are included. The producer subsidy is the value of transfers as a percentage of the value of production.
7. The Consumer Subsidy Equivalent (CSE) is an indicator of the value of monetary transfers to consumers resulting from agricultural policies. Normally these transfers are negative and the CSE can be thought of as the implicit tax imposed on consumers by agricultural policy. The percentage CSE is the value of transfers as a percentage of the value of consumption (valued at producer prices).
8. For reference, the guaranteed price paid to producers of maize in 1996 was 1,250 pesos ($164) per tonne, and the average productivity is 2.2 tonnes per hectare.
The share of direct payments in the total PSE increased from 2% in 1993 to 40% in 1996. But the other important factors determining the evolution of support are the exchange rate and world prices: in 1995, high world prices for cereals and the sharp devaluation of the peso virtually eliminated the price gap between Mexico and the rest of the world.

In the past, given the low incomes in Mexico and the resulting high proportion of people's incomes that had to be devoted to food, a whole plethora of consumer subsidies were in place. They have now been rationalised, to target poor and vulnerable groups, which should improve their cost-effectiveness. Moreover, the shift from market-price support has been of major benefit to consumers. Until 1994, the OECD's percentage CSE was negative (except in 1982-89), representing an implicit tax on consumption, but in 1995 and in 1996, consumption was subsidised. Over the period under review, the percentage CSE has been generally below the OECD average: in 1996 Mexican consumers were subsidised (equivalent to 2% of the value of agricultural output), whereas OECD consumers as a whole paid a 23% implicit tax.

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How much have agricultural policies cost in recent years? Since 1983, total support to Mexican agriculture, as measured by the OECD's percentage PSE, has been low compared with the OECD average: in 1996 Mexican consumers paid a 23% implicit tax. Consumers have been the main beneficiaries of the reduction in price support.

The first 'Procampo' payments were made in 1994, when eligible farmers (those who produced grains, beans and oilseeds before 1993) could allocate land to any crop. In 1995, payments were restricted to farmers growing one of nine eligible crops (maize, beans, wheat, sorghum, rice, soybeans, sunflower, cotton and barley). As of 1994, eligible farmers receive payment for land devoted to any crop, livestock or forestry activity, or placed in an approved environmental programme, but they are not allowed to use the land for any other purpose. Payments are given on a per hectare basis for each crop season and are fixed at the same rate across the country. Procampo is helping farmers to adjust progressively from guaranteed-price schemes for commodities to direct payments to given areas. In 1994, guaranteed prices were decreased by 20% for maize, and by 24% for beans while 'Procampo' payment rates were increased by 28%. In 1995, as a result of high inflation brought about by the devaluation of the peso at the end of 1994, guaranteed prices for maize and beans were increased in nominal terms, as were 'Procampo' payments. In 1996, it was announced that 'Procampo' payments will be fixed in real terms until the end of the duration of the programme (15 years). For the spring/summer crop season in 1996, payments were established at 484 pesos ($64) per hectare.

Payments under 'Procampo' benefited 3 million farmers on more than 15 million hectares, with a total budgetary cost of around 4.9 billion pesos ($64 billion) in 1994 and 5.9 billion pesos ($89 billion) in 1995. It is estimated that spending under 'Procampo' reached about 6.8 billion pesos ($9.9 billion) in 1996. In 1995, the OECD OBSERVER No. 204 June/July 1997

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Farmers can benefit from several payments at the same time, although there is a maximum payment limit for each sub-programme. 'Produce' includes five sub-programmes: fertilisation and irrigation, poultry, rural equipment, mechanisation, and farm studies and projects. Additional programmes are associated with the production of specific commodities (milk and rubber, for example); others are more general, and are intended to benefit agriculture as a whole (animal and plant health, rural training and extension, rural employment, women in rural development, marketing and promotion). The aim of all of them is to improve productivity, and the Mexican government hopes that they will contribute to increasing production towards products in which Mexico is competitive in international markets, especially in fruit and vegetables.

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