

The Mexican Experience and Lessons for WTO Negotiations on the Agreement on Agriculture

Laura Carlsen | June 11, 2003

The following is the text of a speech delivered by the author as part of the "Hearing of Experts on WTO: Agriculture, TRIPS and Singapore Issues" before the Committee on Industry, External Trade, Research, and Energy of the European Parliament, June 11, 2003.

The Doha Round mandated that special attention be given to the development needs of developing countries. Therefore, a review of the Agreement on Agriculture must focus on the impact of liberalization to date and the potential impact of new rules.

Mexico has been called the laboratory of free trade, because the nation radically opened its borders beginning in 1986, with entry into GATT. Mexico carried out unilateral trade liberalization and structural adjustments that accelerated in 1994, when the North American Free Trade Agreement (NAFTA) went into effect. We can now draw on nearly two decades of experience in agricultural free trade policies from the perspective of a developing country. The lessons are illuminating for the present WTO negotiations, and indicate the need to seriously question the present focus on market access for developed countries, at the expense of food sovereignty, livelihoods and rural development in developing countries.

The Mexican Experience: Displacement, Poverty, and Food Dependency

Under NAFTA, Mexico agreed to total trade liberalization of all agricultural products by 2008. Although corn and beans, the nation's staple food crops, were given a fifteen-year adjustment period, in practice both have been liberalized before the adjustment period by government decisions to permit tariff-free imports above quota. In effect, corn faced zero-tariffs less than three years into the agreement.

The asymmetries between Canada, the United States, and Mexico in agricultural production were profound at the time of signing and have deepened since. Twenty-one percent of the Mexican population depends on farming for their livelihood, compared to only 2.8% in the U.S. Three-fourths of Mexican producers work fewer than five hectares. Important asymmetries exist in subsidies—the U.S. Farm bill authorizes over \$200 billion in the next decade—, productivity, credit, natural resources, inputs, and transportation.

Corn is Mexico's most widely grown crop and the major source of sustenance in both rural and urban sectors. Mexico is the center of origin for corn, and the country's history and its 56 indigenous cultures revolve around maize. Corn imports have nearly tripled since NAFTA, and the price has dropped 64% since 1985. Genetically modified corn imports have contaminated local varieties, leading to fears of loss of biodiversity and increasing dependency on transnational seed and chemical companies.

Other crops have fared even worse. Soybeans, wheat, poultry, and beef imports have risen over 500%, displacing domestic production. Subsidized imports at dumping prices have also broken down vertical integration in growing agro-industrial sectors, like beer production.

The Mexican countryside lost 1.7 million jobs since NAFTA, in the context of little employment generation in other sectors. During the same period thousands of Mexicans migrated to the U.S., many to work in agriculture as undocumented workers



without labor guarantees or benefits. Mexico has imported \$78 billion worth of foods since 1994.

Promised compensation has not materialized. Exports have risen, especially in fruits and vegetables, but fail to compensate for imports. Agro-export crops cover only 8% of total cultivated land, compared to the three million producers of basic grains and oilseeds on 70% of Mexican farmland that has been devastated by imports. Agricultural niche-marketing, where the country is thought to have comparative advantages, has little room to grow due to supply-side constraints (water, climate, and soil conditions), lack of financing, and narrow markets. Agriculture has received only 0.3% of direct foreign investment.

Mexico has registered a negative balance of trade in agriculture over the decade of trade liberalization. Moreover, the government lost nearly \$3 billion in revenues by failing to apply tariffs permitted under NAFTA.

Lessons for the WTO

In sum, two decades of agricultural trade liberalization in Mexico have led to: an increase in rural poverty, malnutrition, out-migration, and instability; increased workloads, particularly for women; increased consumer prices; increased profits and market control by transnational traders and processors at the cost of smallholder farmers; lost national revenues that could have been applied to development programs; and severe risks to the environment and biodiversity.

By reflecting the market access priorities of developed countries that predominated in NAFTA, the Harbinson draft does nothing to reverse the negative tendencies of trade liberalization seen above.

First, because it fails to seriously take into account asymmetries in pursuing market access. The Agreement on Agriculture proposes “harmonizing,” gradually or abruptly, market access on the foundation of enormous and unresolved asymmetries between nations, and between sectors within nations. Special and Differential Treatment—to the degree in which it has been defined—merely reduces tariff reduction requirements, often on the basis of already low tariff levels. The ability to exempt “Special Products” is severely limited by the fact that they would be determined by conflicting interests in the WTO rather than national rural development policies. Instead of creating a level playing field, this approach leads to the establishment of permanent disparities.

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For all but a handful of heavily subsidized, well-capitalized, and often transnational agricultural interests, market access translates into market displacement. The food market is relatively inelastic. When the global market expands for nations and corporations with “comparative advantages,” it expands based on the conquest of markets wrested from farmers in developing countries. The consequence is displacement of national food production and destruction of subsistence production systems.

Second, the Agreement perpetuates dumping practices while denying defensive tools to developing countries. Export subsidies would be phased out, instead of ended. Little is done to prevent indirect export subsidies from being shifted to uncontrolled Green or Blue Box measures that wind up having the same net effect of encouraging overproduction and displacing developing country production within their own markets.

Income support payments also contribute to dumping on world markets, but they have very different practical functions in developed and develop-

ing countries. In net food-exporting countries, they serve primarily to subsidize traders by lowering the price they have to pay to producers, encouraging overproduction and enabling them to increase volumes sold abroad. In countries like Mexico, where over half of farms produce for family consumption, supports could mean the difference between a child starving or not.

Free Trade vs. National Development

The debate in developing countries is not, at root, a debate between free trade and protectionism. It is a debate between the imposition of free trade rules at the cost of national development and well-being. In the complex and difficult context of a globalization that shows clear tendencies toward increasing inequity, and concentration and polarization of wealth, developing nations need to respond with policies that assure each citizen a basic standard of living. The Agreement on Agriculture, like NAFTA, binds national policymaking in a straitjacket just when developing countries must respond to new and dangerous challenges. At the same time, it exacerbates threats to food sovereignty, and eliminates important strategies for survival in the countryside that not only guarantee livelihoods but also support cultural, agricultural, and biological biodiversity.

The United Nations Development Program recently listed four principles of trade that have been largely forgotten in current debates focused on market access: 1) *Trade is a means to an end, not an end in itself*; 2) *Trade rules must allow for diverse national institutional standards*; 3) *Countries have the right to protect their institutions and development priorities*; 4) *Countries do not have the right to impose their institutional preferences on others*.

These simple rules imply a complete reorientation of the WTO, from trade promotion to a stronger focus on development and equity issues. Organizations of small farmers in developing countries have articulated a broad range of recommendations that must be considered to address the basic inequities of international trade in agriculture

and protect the many roles rural production plays in society, including employment, food sovereignty and security, foreign exchange, and allocation of natural resources.

To end dumping, they call for an end to export subsidies in all forms, and the right to safeguard mechanisms or protective measures when deemed necessary. Mexican farmers associated with Via Campesina assert that this requires exempting food production and markets from the WTO to create new, more democratic mechanisms of regulation that respect food sovereignty and help rebuild local and regional markets. It also requires regulation of transnational trading oligopolies that create price distortion.

Other recommendations include:

- Farm support and agrarian reform programs based on human needs, that incorporate the goals of gender equity and respect for farmers' rights—above all the right to farm.
- Legislation and enforcement of national environmental and health standards, even when set higher than international standards, or those of partner nations.
- Impact studies based on real experience rather than theoretical modeling. Studies must take into account market failures due to concentration of transnational corporations and non-trade concerns.
- Commitment to preserving the multifunctional character of agriculture in a real and global way. The EU commitment to multifunctionality so far has been restricted to permitting measures that support developed country agriculture. Although non-trade concerns are even more vital in developing countries, no provisions have been made to support them where national government funds are insufficient. Even more importantly, there is no recognition of the impact of dumping on the ability of these countries to maintain agricultural activities that ensure global values, such as environmental conservation, employment, and food security.

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- Democratization of international trade regulation, including correction of the under-representation of the Least Developed Countries—in most cases the most reliant on agriculture.

International trade rules should promote human well-being and minimize conflict. They should not impose a free-trade system, because there is no global consensus that this is the only, or best, road to development and equity. Rather, experiences like Mexico's indicate that it is a road fraught with perils and high human costs.

Even optimal international trade rules will not solve the problems of rural development, due to the

complexity of local and regional conditions and non-trade concerns. Only national integral development policies can do this. Domestic policy is a battle that must be fought on its own turf by the rural citizenry in the context of a responsive and democratic state. By tying the hands of national governments, the WTO Agreement on Agriculture will only exacerbate the crisis in the countryside and undermine democratic processes.

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Recommended citation:

Laura Carlsen, "The Mexican Experience and Lessons for WTO Negotiations on the Agreement on Agriculture," Americas Program (Silver City, NM: Interhemispheric Resource Center, June 13, 2003).

Web location:

<http://www.americaspolicy.org/commentary/2003/0306eu.html>

Production Information:

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