By Daryll E. Ray

Mexico and Corn

As trade talks gear up in Cancun Mexico, Mexico's experience under the North American Free Trade Agreement (NAFTA) is being used as a case in point to illustrate the problems that can come as a result of trade liberalization. The U.S., Canada, and Mexico began operating under NAFTA January 1, 1994.

The promise made by the proponents of the agreement was that everyone would win under the agreement. To be sure there would be some economic sectors that would have to undergo some structural readjustment, but the gains would far outweigh the problems. In the long run it was expected that consumers, all of us, would benefit by lower prices brought about by allowing the producers with comparative advantage to supply the marketplace.

It was expected that U.S. corn producers would gain access to Mexican markets because of their lower production costs while Mexican flower and vegetable producers would gain access to U.S. markets because of lower labor costs in those labor intensive activities. Mexican consumers would benefit from lower priced corn and at the same time U.S. consumers would benefit from lower priced green peppers and floral arrangements.

Nine years into the agreement, things have turned sour. A change in U.S. agricultural policy has allowed subsidized, below-the-cost-of-production corn to be imported into Mexico driving down the price of corn for farmers there. The only problem is that Mexican farmers did not have access to the LDPs and Emergency Payments that have kept the U.S. farm sector afloat since 1997.

At the same time that the Mexican market has seen the lowest corn prices in recent times, the price of tortillas, the basic foodstuff for many Mexican families, has quadrupled due to concurrent de-regulation. Clearly, consumers do not always benefit from lower crop prices. The combination of lower farm prices and higher food prices has put a strain on the poorest segment of Mexican society.

This experience strengthens the arguments of those who say that developing countries will be at a disadvantage as long as developed countries like the U.S. and the European Union allow output to outrun demand causing world crop prices to fall well below the cost of production.

While developed countries may be able to make up some of the decline in prices with government payments to farmers, farmers in developing countries receive no such payments and thus bear the full brunt. Reaching the highly-touted goal of cutting worldwide malnutrition by one-half by 2015 likely requires production from the very farmers in developing countries that are being hit the hardest. Trade liberalization may be part of the puzzle but it is important to remember that only a small portion of the world's output of staples even enter international trade channels.

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