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STRUCTURAL CHANGE IN MEXICO

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Mexico underwent a deep structural change during its process of developing a coherent agricultural policy. This change occurred in the framework of the agricultural sector so that Mexico could move ahead toward a more market-oriented economy.

We have dealt with four issues:

- The most obvious was the Macroeconomic Stabilization Program in which Mexico has engaged during the last twelve years.

Basically, the Macroeconomic Stabilization Program stabilizes the three main economic variables, the general price index, interest rates and exchange rates.

- The second area was our legal framework.

We had to go through constitutional changes. For those not familiar with Mexico, we recognize three types of properties in our Constitution: private property, public property and ejidos¹. Although ejidos previously were recognized in our

¹ Previously, common land, owned by the government, but managed by local communities.

Constitution, an ejidatario² could not put the land in collateral for a financial loan. The government would have to offer collateral for the loans to this group. As a consequence, there was a low rate of loan recovery from these producers. In 1991-92, a constitutional amendment was passed. The concept of ejidos property was added to Mexico's constitution and agrarian law was reformed. Presently, the ejidatarios can legally rent or use land for collateral if they go through a small administrative process. We moved to change our seed laws and many different administrative and legal changes whose main aim was to have a framework of certainty in terms of transactions between individuals. This process has not finished. As we move into deregulation of our economy, we have found many things to change and it has become a continuous process.

- Our third issue was trade policy.

Trade policy has been discussed a great deal in this workshop. I will only say that for Mexico, trade policy is an instrument of our whole economic program. We use trade policy to ensure that the rules of the game will not change. If someone in Congress or the Executive Branch wants to change it, they will pay a big price. Certainly the way we settle disputes was extremely important for us.

- The fourth issue was the institutional framework. We deregulated the economy and decentralized decisions.

In the case of the agricultural sector, the federal budget was handled through an office in Mexico City. People there were making decisions which were supposed to have an impact, for example, on a small town in Chiapas. That was ridiculous. We moved the federal budget to the states and created state agricultural commissions where there are representatives of federal and state governments, and producers. The commissions decide the menu of the things which they want supported. Whatever is chosen, they have to allocate the money (30 percent state, 30 percent federal and 30 percent producers). The producers decide the menu and what is chosen from it. The federal government is basically looking after the development of the programs as well as auditing where the money goes.

CHANGING ROLE OF GOVERNMENT

The role of government has changed dramatically in Mexican agriculture. We have created new rules of the game. We now audit government expenditures. We are also trying to fill the holes which were left by government moving out of economic activities.

For the last year, I have been working on how to decentralize the marketing system in Mexico. That deals with privatization of our warehouse system and elimination of our state trading firm CONASUPO. In the privatization of our warehouse system, I believe that we did it textbook-style. When we wanted to eliminate CONASUPO what we faced was opposition, not from the producers, but

² A farmer who farms a ejido.

from trade leaders. These leaders had captured considerable rents from the existence of a state firm. Also, state governments were concerned, because with CONASUPO, they had never had to worry about what would happen if they had excess supplies of commodities. Previously, CONASUPO would step in and buy their inventories.

We are currently trying to respond to many different situations which have arisen due to the elimination of CONASUPO. Examples include:

- The arbitration of contracts in terms of standards, quality of the programs, and enforcement of contracts that were guaranteed by CONASUPO.

Without CONASUPO, using maize as an example (yellow #2 corn in the United States), when we phased out CONASUPO in January of 1999, producer prices began to distinguish by quality. The price of yellow maize decreased and the price of white maize increased. The prices of Mexican red, blue and black maize skyrocketed because of niche markets.

Also, when CONASUPO was phased out, we received a number of calls from traders about the rules of the game. We stepped in with FIRA-Banco de Mexico, a second-level financial institution, to put 40 percent guarantees on the loans for financing inventories (marketing loans). Enforcement of the contracts will mean that the lender will lose 60 percent, and the government will lose 40 percent, if those contracts were not fulfilled.

We have handled beans, the other staple which is marketed through government, in a similar manner. We put a guarantee in the contract among private traders and producers.

The last commodity we have had on our hands is powdered milk. Powdered milk has been a big problem. We have trade agreements and have signed some compromises in WTO. We have agreements with the United States about quotas. Also, our producers have invested in the milk industry for the last five years. We have to do something which was economically reasonable, as well as, legally possible. Since we had a quota, CONASUPO was the only buyer of powdered milk and we divided the market. It is a segmented market, with 150 firms registered for the quotas. Five firms have 75 percent share of the market for powdered milk. We have a social program in the hands of a company called LICONSA, which buys close to 100,000 pounds of powdered milk a year. We asked LICONSA to go to the market. We then segmented the market and assigned a certain amount of the historic purchasing power of firms. We know on the margin, part of the demand of these firms. The rest of the demand, which is unknown, will be fulfilled through an auction system on the margin. The information of the auction system on the margin will allow us information that will be added to information in the next auction. We will start building the little points of the demand. With that we will adjust the quantities of the quotas. It is something which is being discussed with the United States and Canada. I believe that it fulfills WTO compromises as well as our trade agreements. It will be a nice way for the government to step out of these markets.

SECTOR POLICY

The last issue is sector policy. This basically deals with two things: the organization of producer organizations and the government instruments of support. There is a saying in Mexico.... "Agriculture is organized for the votes, not for economic reasons." That was the reasoning of our Minister of Agriculture about 20 years ago. Some politicians would like to continue with that, but I do not think that they can continue. Producer organizations basically respond to corporate decisions. The rules of the game have changed and producer organizations have to change as well.

We are moving toward designing our rural development law. This law will put more emphasis on producer organizations for economic reasons and allow them to build instruments of support that help them to live in this world with new rules. When we eliminated guaranteed prices, we had to put in an income support program. The first idea of the income support program was to compensate the losses due to the diminished prices. The second idea was to allow the producers to have access through the income support program to credit. We have not done the second part. The idea was that producers in PROCAMPO, the income support program, could use the net present value of the flow of income payments as collateral today for changing activities and investments.

Part of the federal budget that was in programs which coupled returns to production was eliminated. Part of that money went to infrastructure through the Temporal Employment Program (TEP). TEP basically puts that money which was in programs linked to production into programs which share in the cost of infrastructure (rural roads, small dams, etc).

We also have a program called Alliance (Alianza para el campo). It is named Alliance because we want to bring everybody together to share ideas and instruments. Alliance provides 30 percent of the cost of the program from federal money as long as the producers and states put in the remainder. In programs which deal with seeds, for example, we exchange indigenous seeds with certified seeds to improve yields. We also have a popular program which relates to the development of infrastructure that captures the runoff on producer dryland.

The basic idea of all of this is the elimination of all of the programs which dealt with production or the decision to produce, and replacement by a more market-orientated system. In this transition, producers do not have complete information. The role of government here is to try to assist them with the uncertainties which are in the new system so that they can make better decisions. We are trying to move that information to producers, with the assistance of the United States and Canada.

The response from producers is that we are doing things too quickly, and that they are in a world with more uncertainty. Those who are benefitting are not speaking out, and those who are losing are filling the newspapers everyday. We think that we are on the right track.