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# Mexico: The Impact of Slower Agricultural Growth

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A Research Paper

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# Mexico: The Impact of Slower Agricultural Growth

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**A Research Paper**

This paper was prepared by [Redacted] Office  
of African and Latin American Analysis, with a  
contribution by [Redacted] Office of Global  
Issues. It was coordinated with the Directorate of  
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Comments and queries are welcome and may be  
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**Mexico: The Impact of Slower  
Agricultural Growth**

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**Scope Note**

This assessment is part of a series of papers that examine structural economic problems in Mexico and their implications for the United States.

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## Mexico: The Impact of Slower Agricultural Growth

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### Summary

*Information available  
as of 16 March 1988  
was used in this report.*

The growing inability of Mexican agriculture to feed its people is creating serious economic and political problems for Mexico City and increasing the pressure on rural Mexicans to emigrate illegally to the United States. Declining rates of agricultural production have made Mexico increasingly dependent on food imports, generated substantial rural underemployment, and prompted a vast influx of peasants into the urban centers.

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Agricultural output has slackened during the last several decades largely because of government policies that favor consumers over producers and heavy industry over agriculture. As a result, farm employment and output have stagnated and Mexico has started to run agricultural trade deficits. Moreover, government policies favoring large agricultural producers of export crops have hampered the production of basic staples. Although the Mexicans have taken some steps to correct the disincentives to agricultural production and to stimulate peasant farming, we believe the problem is likely to worsen significantly in the coming years.

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We judge that government policies will continue to hold down agricultural growth, confronting Mexico City with a number of problems:

- Poor profitability. Continued price and export controls, as well as budgetary constraints on hiking real prices paid to farmers, make it unlikely that profit margins will increase significantly for many basic foods. Thus, production of grains, oilseeds, meat, and dairy products probably will not keep pace with demand.
- Growing underemployment and unemployment. A sluggish pace of agricultural growth, together with demographic trends and a lack of land, will create a larger pool of surplus farm labor, but nonagricultural sectors will not be able to absorb them as they did during Mexico's boom years.
- Rural to urban migration pressures. Low incomes and insufficient employment opportunities will prompt hundreds of thousands of peasants to migrate to urban centers each year, straining the cities' ability to meet demands for housing, electricity, potable water, sewage disposal, and roads.

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- Widening income gaps. Mexico City's desire to sell basic foods to urban workers at low prices, its unwillingness to release staple crops from rigid controls, and fragmentation of already small plots probably will continue to tip the economic scales against peasants. [redacted]

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On the political side, peasants' dissatisfaction with government policies probably will grow, but we believe they lack the clout to garner significant concessions from the ruling party. A number of leftwing parties have tried to capitalize on peasant discontent, but it is unlikely they could seriously challenge the ruling party's domination of the countryside. The government's control of land titles, credit, and inputs, as well as its ability to co-opt peasant leaders, probably will keep most peasants in line. As urbanization and industrialization proceed, peasants stand an even smaller chance of influencing government policymakers because agriculture's role in the economy will diminish. As the ruling party continues to evolve from its peasant origins, it probably will give greater weight to satisfying demands from urban workers and the middle class. [redacted]

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Mexico's increasing dependence on imported foods is likely to create a growing market for US exporters as well as some minor trade frictions. Food demand almost certainly will pick up once Mexico emerges from a slight recession this year. Shortfalls in grains, oilseeds, meat, and dairy products probably will boost demand for imports from the United States, already Mexico's most important source of agricultural imports. Mexico City's reluctance to lift most agricultural import licenses, however, suggests that the government will continue to protect domestic producers from US competitors. Mexican officials may seek to offset the adverse effects of rising imports on its agricultural trade balance by pressing the United States for fewer restrictions on Mexican exports of fruits and vegetables. [redacted]

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The poor outlook for peasant farming and the rapid growth of the working-age population suggest that the number of illegal immigrants to the United States will grow. From Mexico City's perspective, illegal immigration is an important safety valve as well as a source of foreign exchange. Consequently, the Mexicans probably will continue to denounce the new US immigration bill that aims at deterring illegal workers from crossing the border. Mexican officials also are likely to focus on alleged US exploitation of illegal workers to deflect public attention from the domestic roots of the issue. [redacted]

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Figure 1  
Principal Agricultural States



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## Mexico: The Impact of Slower Agricultural Growth




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### Introduction


Mexico's agricultural sector has long been relegated to a low place on government officials' list of national priorities. From the 1960s until the early 1980s, Mexico City centered its development strategy on promoting the growth of import-competing industries, even though this policy proved damaging to the farm sector. As Mexico's push to industrialize created a larger urban work force, government officials also attached more importance to assuring urban consumers an adequate supply of cheap food than to providing farmers with sufficient profits to stimulate production. The limited resources made available to farmers were concentrated on large, affluent land-owners in the north in order to increase export revenues, ignoring the peasant farmers who produce the bulk of Mexico's basic foods. These policies have, over time, impaired Mexico's ability to feed itself, held back rural incomes, and contributed to rural-to-urban migration and to illegal immigration to the United States. 

Once a mainstay of Mexico's economy, the agricultural sector now plays a much smaller part. Currently, it accounts for about 10 percent of export revenues and gross domestic product (GDP)—down from 50 percent of exports and 16 percent of the GDP in the 1960s. Moreover, although Mexican agriculture provides jobs for about one-fourth of the labor force, many are underemployed and must supplement their income with jobs off the farm. 

This paper examines the causes of Mexico's lackluster agricultural performance, the de la Madrid government's efforts to improve the situation and its likely future actions, and the social and economic fallout of such policies. It also addresses the trade implications for the United States and the impact on cross-border illegal immigration. 

### Dimensions of the Problem

Although agricultural output in Mexico has increased during the last several decades, the production of some basic commodities is no longer keeping pace with demand. Real agricultural production expanded by an average 6 percent each year during the 1940s and 1950s, but then declined to 4 percent in the 1960s and 3 percent during the period 1970-86, according to Mexican statistics. More significant, since 1970 the rate of growth in the production of staple grains and oilseeds—which represent approximately two-thirds of total crop production—has fallen short of the growth in demand. For example, production of corn grew at an average annual rate of 2 percent from 1970 to 1985—compared with 4 percent during the 1960s—at a time when corn consumption was expanding by more than 3 percent annually. Like other staple foods, domestic production of corn was greater than domestic demand in the 1960s, but by 1985, it met only about 80 percent of needs, according to the World Bank (see figure 2). 

As a result, Mexico has gone from being a net exporter of agricultural goods to a food importer, and it has run an agricultural trade deficit for five of the last eight years. Deficits were avoided in 1982, 1986, and 1987 only because domestic recessions held down import demand and freed up exports (see figure 3). Agricultural imports have risen steadily as a share of total imports—from an average of 4 percent during the 1960s to 11 percent in the 1980s—according to the Bank of Mexico. Imports of oilseeds and grains—particularly soybeans, sorghum, and corn—have soared, accounting for more than two-thirds of total food imports in 1985 (see figure 4). 

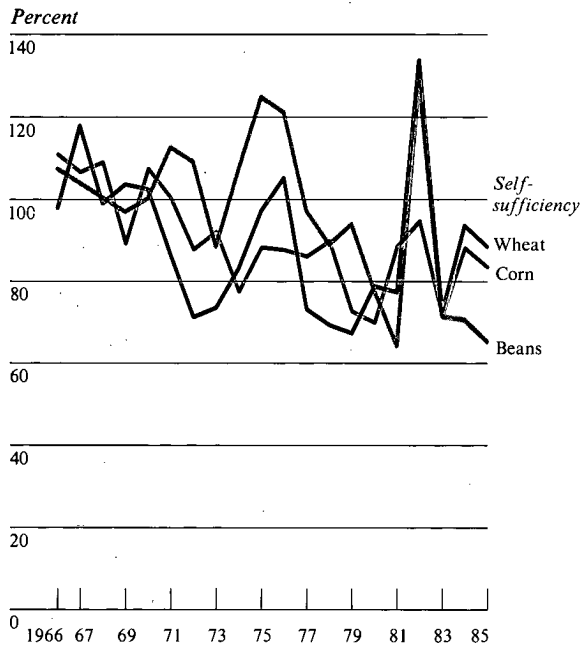
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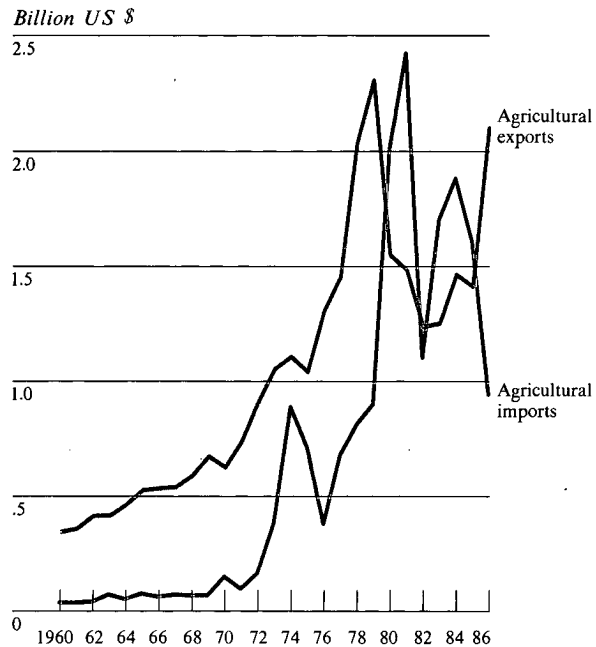
**Figure 2**  
**Mexico: Degree of Self-Sufficiency,**  
**Selected Products<sup>a</sup>**



<sup>a</sup> The degree of self-sufficiency is defined as the ratio of production to consumption. A country is completely self-sufficient if production is equal to 100 percent of consumption. When production exceeded consumption, Mexico had a surplus of food to export. When production was less than consumption, Mexico had to import food.

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**Figure 3**  
**Mexico: Agricultural Trade Balance**



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Meanwhile, agricultural exports fell sharply from 1979 to 1985, reflecting smaller sales of such major commodities as cotton and coffee (see table). Agricultural exports had already begun to fall as a percentage of total exports, dropping from an average of nearly 50 percent in the 1960s to 25 percent in 1979 as Mexico became more industrialized and began to export growing quantities of petroleum. From 1980 to 1984, agricultural sales plummeted to a mere 6 percent. The sharp rebound in agricultural exports in 1986 was an anomaly, in our view, because coffee and tomato prices doubled that year, but sank back in 1987. Indeed, preliminary figures for 1987 suggest that food exports probably made up no more than 8 percent of total exports.

In the meantime, slow agricultural growth has limited employment opportunities in agriculture while the number of people needing land or farming jobs has ballooned. Job creation in the agricultural sector has been weaker than in other sectors, lagging far behind the growth of the labor force (see figure 5). From 1971 to 1986, the Bank of Mexico's data indicate farm employment grew at a scant 1-percent average annual rate, compared with 3.5 percent for the rest of the economy. At the same time, the number of people needing jobs in the agricultural sector was growing by more than 3 percent annually, according to Mexican data.

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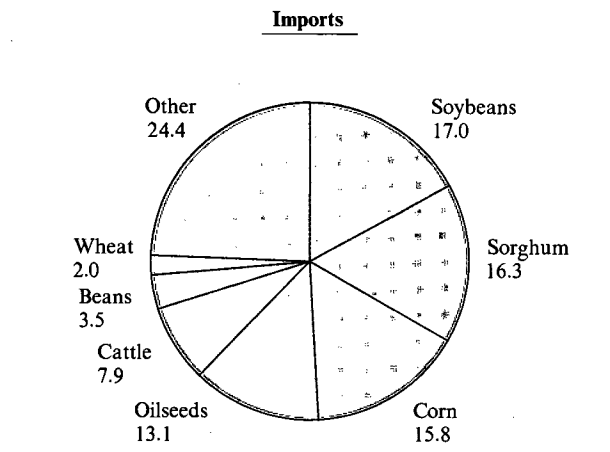
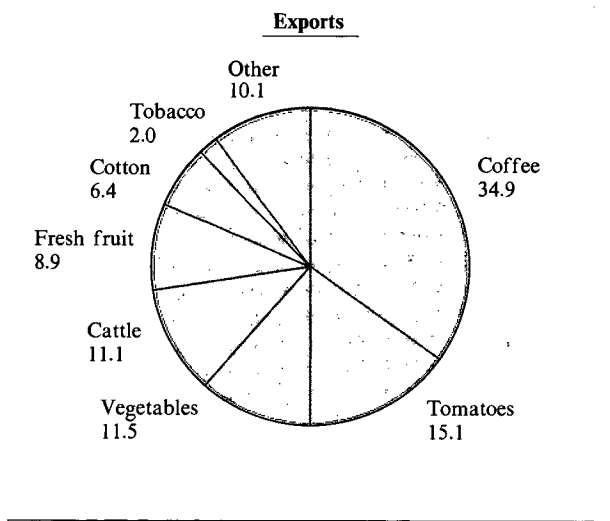
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**Figure 4**  
**Mexico: Major Agricultural Exports and Imports, 1985**

Percent



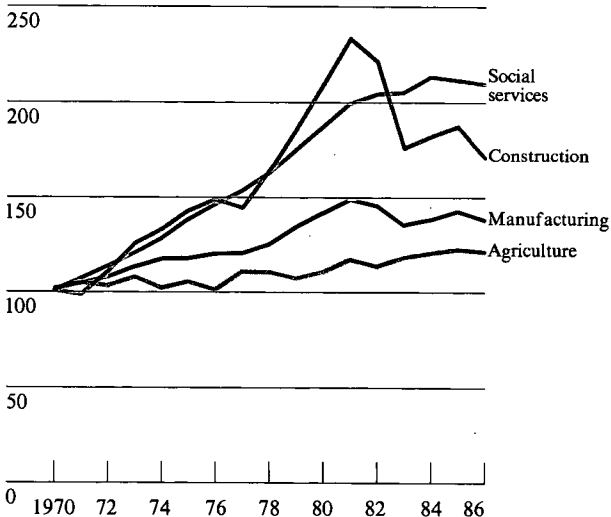
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The farm sector's sluggish pace of job creation—along with low farm incomes—has played a key role in prompting millions of people to migrate to urban centers or to seek illegal jobs in the United States. The 1980 Mexican census indicates most of the migrants streaming into urban areas in Mexico have

**Figure 5**  
**Employment Growth Versus Labor Force Growth**

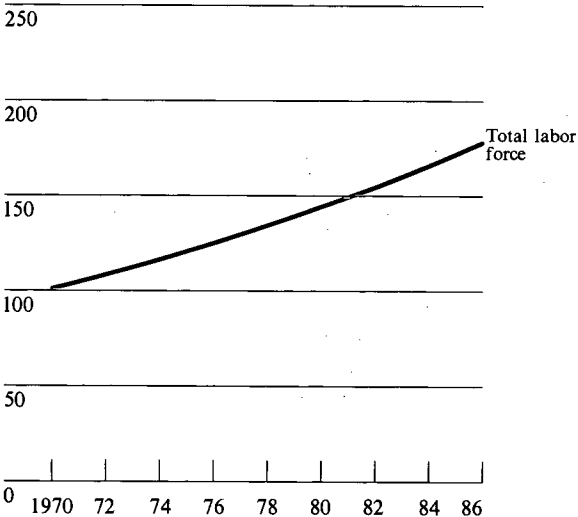
**Employment Growth**

Index: 1970=100



**Total Labor Force Growth**

Index: 1970=100



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**Mexico: Agricultural Trade <sup>a</sup>**

Million US \$

	1970	1979	1980	1981	1982	1983	1984	1985	1986
<b>Agricultural exports</b>	<b>623</b>	<b>2,304</b>	<b>1,546</b>	<b>1,481</b>	<b>1,233</b>	<b>1,249</b>	<b>1,461</b>	<b>1,409</b>	<b>2,098</b>
Of which:									
Coffee	74	564	415	334	345	386	424	492	825
Cotton	82	344	321	309	184	116	208	90	74
Tomatoes	35	207	185	250	154	112	221	214	408
Other fresh vegetables	12	101	172	198	178	150	179	162	198
Fresh fruit	44	89	83	82	71	45	87	126	110
<b>Agricultural imports</b>	<b>148</b>	<b>898</b>	<b>2,012</b>	<b>2,421</b>	<b>1,100</b>	<b>1,701</b>	<b>1,880</b>	<b>1,607</b>	<b>938</b>
Of which:									
Sorghum	2	155	308	432	195	434	383	264	78
Corn	56	100	589	453	38	834	375	255	166
Soybeans	11	154	132	355	156	218	403	275	167
Oilseeds	3	47	126	189	218	139	240	213	147
Wheat	0	188	163	214	87	60	41	32	20
Beans	2	4	241	337	98	1	34	56	83
<b>Agricultural trade balance</b>	<b>475</b>	<b>1,406</b>	<b>-466</b>	<b>-940</b>	<b>133</b>	<b>-452</b>	<b>-419</b>	<b>-198</b>	<b>1,160</b>

<sup>a</sup> Sources: Bank of Mexico and the United Nations

come from regions such as Michoacan, Oaxaca, Zacatecas, San Luis Potosi, and Puebla, all of which have a high proportion of agricultural workers (see figure 1). On average, almost half the labor force in these states are farm workers, compared with one-fourth for the country as a whole. According to the US Embassy, farm workers still constitute more than half the illegal Mexican emigrants to the United States, although a larger number of more skilled and urban workers have been arriving in recent years.

**Underlying Factors**

The reasons for Mexico's declining agricultural performance are complex. In our view, the most critical have been government policies designed to keep consumer food prices low, which have hurt profitability in agriculture, particularly in the production of basic food crops. We judge that inefficient land use and

uneconomical plots also are important factors. Structural problems, weak commodity prices for exported crops, and fluctuations in weather have also come into play.

**Inappropriate Government Pricing Policies**

Government policies that have favored the consumer rather than the producer have been a major reason for the poor state of Mexican agriculture, in our judgment. To accomplish its primary goal of guaranteeing consumers a supply of basic foods at low cost, since the 1960s, Mexico City has established sale prices for a number of commodities—most notably grains—below the prevailing price on the international market according to the World Bank.<sup>1</sup> At the same time,

<sup>1</sup> During the period 1979-82, Mexican sales prices temporarily rose above international levels because of the Lopez Portillo administration's lavish spending on farm support.

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farmers have had to pay relatively high prices for agricultural inputs, such as seeds, fertilizers, pesticides, and machinery, leading them to complain that the government had not set market prices high enough to cover their costs. As the squeeze on the farmers' profit margins worsened, many farmers shifted production away from basic food crops. Some farmers opted to grow alternative crops, such as alfalfa, which offered higher profits. US Consular reporting indicates that many subsistence farmers also turned to narcotics cultivation to increase their income.<sup>2</sup>

[redacted]

To discourage farmers from selling essential foodstuffs abroad—and thus creating shortages at home—Mexico City also maintains export controls that prevent producers from obtaining higher prices for their crops and livestock outside Mexico. The quotas cover essential products such as corn, sorghum, soybeans, flour, and cattle.<sup>3</sup> They vary from year to year and depend on Mexico City's estimate of domestic supply and demand. For example, in 1988 Mexican officials reduced the export quota for feeder cattle from 1.2 million head to 1 million because of an expected increase in domestic meat demand. Discouraged by the low returns for food crops covered by price and export controls, many commercial farmers switched from producing staple crops like corn to crops such as fruits and vegetables that are relatively free of government price and export controls and offer a higher profit margin. [redacted]

<sup>2</sup> According to Embassy reporting, farmers can earn three times as much by growing narcotics as they can by growing basic food crops.

[redacted]

<sup>3</sup> The government also limits the export of coffee, sugar, tobacco, cotton, and tuna because of international quota agreements or voluntary export restraints agreed to with the United States. [redacted]

**Emphasis on Heavy Industry**

Mexico's policy of encouraging the growth of industries by protecting them with high tariffs, import quotas, and licensing requirements has been another major cause of declining agricultural performance.<sup>4</sup> High tariffs on industrial products have contributed to the increased cost of inputs in agriculture, thus lowering farmers' profits. Tariffs on industrial products have generally risen during the 1970s, making such agricultural inputs as farm machinery more expensive. This in turn has contributed to a general shift in investment and resources from agriculture to industry. [redacted]

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**Favoring Large Producers**

Another factor that has hurt Mexican agriculture has been Mexico City's decision to shower resources on large, private landholdings at the expense of smaller peasant farms. This has helped to limit the production of many basic food crops. From the 1960s until the early 1980s, the government concentrated investments and credits on irrigated land held by large private landowners in the north in order to increase production of wheat, cotton, and vegetables. Government officials believed these investments would benefit Mexico most in terms of increased foreign exchange earnings. [redacted]

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At the same time, they ignored rain-fed peasant farms, contributing to stagnant yields and rising imports of corn and beans—foods comprising about 70 percent of peasants' diets. Agricultural advances largely bypassed the peasant sector, with the result that yields of beans and corn—nearly two-thirds of which is grown on peasant-operated collective farms—have hardly changed in over a decade (see inset). Large landowners have mostly ignored production of these staples because of disincentives stemming from price and export controls. US agriculture experts believe that rain-fed peasant farms could have produced far more if the government had better balanced investments and credits between private and peasant farmers and provided more assistance to peasants for improved seeds, fertilizer, and pesticides. [redacted]

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<sup>4</sup> Mexico put import substitution policies into effect in 1947. Trade policies became increasingly restrictive in the 1960s and early 1970s. [redacted]

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**Mexico's Inefficient Ejidos**

*Mexico's system of collectivized farms—the ejidos—are a major obstacle to expanding agricultural production, according to the US Embassy. The ejidos make up 55 percent of Mexico's arable land and produce 60 percent of the country's basic foods—mainly subsistence crops such as beans and corn. Most of the ejidos are governed collectively, but are comprised of small, uneconomical plots that are farmed individually. According to UN estimates, nearly three-quarters of the ejidos either do not provide enough food for the tenants or generate a substandard income that peasants must supplement with off-farm jobs. The Embassy reports that the majority of ejidos suffer more financial losses and produce lower yields than private farms because of their inefficient size; lack of irrigation, technology and know-how; internal conflicts; and corruption.*

[redacted]

*Despite government rhetoric, the ejidos have been less favored by agricultural policies than privately owned farms largely because private-sector farmers have been important generators of food exports and foreign exchange. Irrigation projects, agricultural credits, crop incentives, and new technology have mostly benefited the more affluent, private landowners. Already handicapped by their inability to mortgage ejido plots, peasant farmers have frequently been unable to obtain even government loans because unirrigated land is considered a poor credit risk.*

[redacted]

*Despite being an economic drain, the ejidos play a significant political role for the government by appeasing peasants, one of the traditional pillars of*

*support for the ruling party. The ejidos—which support 3.5 million campesino families—allow the government to claim that it is fulfilling the revolution's promise of providing farm plots for landless peasants. According to the US Embassy, however, the number of land grants made to collective farms under de la Madrid's administration has slowed dramatically, and the land has increasingly consisted of pastures and woodland because there is no arable land left to distribute—with the exception of land expropriated from narcotics growers that is turned over to peasant farmers.<sup>a</sup> In fact, both de la Madrid and the ruling party's presidential candidate, Carlos Salinas, have publicly stated that land redistribution is coming to an end and that improving productivity of existing ejidos must now become the number one agricultural priority.*

*The ejido system also gives the government substantial political leverage in rural areas. In addition to having the power to extend or revoke land titles, Mexico City decides how many farmers will live on an ejido and who they will be, and controls access to credit and inputs. According to Embassy reporting, Mexico City traditionally has used the ejidos' dependence on the government to co-opt and manipulate campesino leaders in an effort to head off rural unrest.*

<sup>a</sup> In 1987, Mexico City confiscated and redistributed 30,816 hectares from narcotics growers, according to the Embassy.

[redacted]

Past Mexican law designed to prevent large private landholdings also has led to the underutilization of arable land. For example, Mexican law stipulates that ranches will be expropriated if ranchers grow crops or if their property exceeds the area needed to raise 500 animals. This rule was intended to prevent land ownership and income from becoming concentrated in the hands of relatively few. According to World Bank experts, however, these restrictions have left much

arable land fallow and curtailed the growth of production and employment because they do not permit large enough land holdings or a more efficient system combining livestock and crop production. Fears of expropriation almost certainly increased after the passage of several laws in the early 1970s and 1980s

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that allowed the government to seize land to develop irrigation systems and to redistribute land in cattle ranches suitable for farming to *ejidos*. In addition, tens of thousands of unsettled land disputes have heightened uncertainties, prompting land invasions and delayed investment. [redacted]

**Policy Changes Under de la Madrid**

When President de la Madrid came into office in 1982, his government took a number of steps to correct mistakes made by earlier governments in an effort to improve productivity, boost overall agricultural output, reduce Mexico's dependence on imported grains, and provide more rural jobs. These efforts to ameliorate farming conditions have been hesitant, however, and the results have been mixed, largely because plummeting oil prices in 1986 squeezed government spending and because Mexico City still assigns a high priority to assuring urban consumers an adequate supply of cheap food. While farm employment picked up during the period 1983-86, real agricultural output expanded on average by less than 2 percent, and the country faced agricultural trade deficits in three out of the four years. [redacted]

**Reducing Disincentives to Production**

In recent years, the Mexican Government has taken some first steps in reforming domestic pricing policy—including the elimination of consumer price subsidies for sorghum, eggs, milk, vegetable oil, beans, rice, and flour, according to the US Embassy. Sharp increases in food prices during 1985 and 1986 have so far trimmed subsidies as a percent of GDP from 1 percent in 1983 to 0.2 percent in 1986. Such increases also have decreased monetary transfers as a share of GDP from the federal government to the state food and distribution agency by 0.5 percentage point (see inset). Additional price increases during 1987 further reduced the food agency's dependence on government transfers, according to the press. Nevertheless, Mexico City continues to subsidize tortillas, and it holds down prices for a wide range of other agricultural goods by imposing price ceilings. [redacted]

---

**Scaling Down a Government Food Monopoly**

*The centerpiece of government efforts to cut back subsidies on basic foods is the reform of the National Company for Subsistence Products (CONASUPO), the state food import, purchase, and distribution agency. Until 1985, CONASUPO was the sole importer and distributor of oilseeds, grains, and other food products, selling food products to consumers for less than the cost of importing them in order to keep prices low. When grain and oilseed imports accelerated in the 1970s, CONASUPO began to run up huge debts and became one of the parastatals most heavily dependent on government transfers, according to Embassy reports. In an effort to reduce the company's red ink, the de la Madrid administration began to ax some consumer price subsidies and scale back market intervention in 1985.* [redacted]

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*Mexico City has also implemented changes in its trade policy to reduce its role as an importer without relinquishing its control of food imports. At the same time the de la Madrid administration began to phase out subsidies in 1985, it began to allow the private sector to import such staples as grains and oilseeds. Since then, CONASUPO's share of food imports has declined to about 40 percent. Although the government is playing a smaller part as a buyer, it keeps a tight rein on food imports to shield domestic farmers from foreign competitors who offer better quality produce. According to the US Embassy, for example, although Mexico City has reduced the number of agricultural products that require import permits, the vast majority of agricultural goods still cannot be imported without government authorization. The Mexicans also forbid the import of over 300 other food products. Because current GATT rules permit import barriers on agricultural products, accession to the GATT obliged Mexico only to justify trade restrictions. This may change, however, if GATT members agree to opening up agricultural trade at the Uruguay Round.* [redacted]

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The administration also has begun to remedy the bias toward industrial—as opposed to agricultural production—by introducing trade reforms.<sup>5</sup> Import tariffs have fallen to a maximum of 20 percent, compared with 100 percent in 1985, according to Embassy reports. The government also is in the process of phasing out restrictions on manufactured imports. Cutting back the level of protection given to industry will improve the ratio of agricultural prices to the cost of manufactured goods and agricultural inputs. It should also help remove price distortions that discriminate against agriculture. [redacted]

Many of Mexico's major agricultural products, including grains, livestock, and coffee, still remain subject to export controls. According to the World Bank, the government's desire to keep a lid on food prices makes export restrictions essential. In addition, Mexico's participation in international cartels, such as the International Coffee Organization, has led to continued limits on coffee, cotton, and tobacco, which together brought in over 40 percent of Mexico's agricultural export revenues in 1985. [redacted]

**Increasing Land Use**

Mexico City began to channel a larger share of budgeted technical assistance and financial aid to rain-fed peasant agriculture in 1983 in an effort to improve productivity. [redacted] the government is providing technical advice on erosion and drainage control to peasant farmers, and it is limiting subsidies for seeds and fertilizer to corn producers who are dependent on rainfall and own less than 20 hectares of land. We believe the overall impact of government aid programs has been rather modest. In fact, Mexican officials estimate that government financial aid is reaching only 20 percent of the peasant farmers. [redacted]

The de la Madrid administration has had mixed success in clarifying land ownership and regularizing government procedures on land disputes. On the positive side, the Embassy reports that it initiated a rural census to provide data for resolving conflicts

[redacted]

about land titles. In addition, de la Madrid's moral renovation campaign has led to the sacking of numerous corrupt officials who used their positions for acquiring land instead of clearing up land disputes. On the other hand, the redtape needed to settle land claims—some of which have been outstanding for decades—is still complicated and lengthy. Budget cuts that sharply pared down the staff at the Secretariat of Agrarian Reform probably have led to further administrative delays, according to Embassy reporting. [redacted]

**Prospects and Implications**

In our judgment, budgetary austerity, high inflation, disagreements within the government, structural limitations, and political sensitivities make it highly unlikely that the government will make significant headway in reforming the agricultural sector. As a result, US forecasting firms calculate that agricultural growth probably will average no better than 2 percent each year through the mid-1990s. This sluggish rate of growth implies widening gaps between food demand and supply, growing unemployment, increased migration from rural to urban centers, and more uneven income distribution. Peasants almost certainly will continue to be disgruntled over government farm policies, although there is no sign yet that opposition parties will be able to rally enough support to threaten the ruling party's control of rural areas. [redacted]

**Obstacles To Improving Agriculture's Performance**

We believe any efforts to make significant hikes in real support prices or input subsidies for farmers in the near term are likely to run afoul of budgetary constraints and already high inflation. Even during the days of lavish farm spending under Lopez Portillo, real support prices still were well below levels present in the 1960s. Although US Consulates report frequent peasant farmer protests over their inability to cover their costs with low government price supports—particularly for corn and sorghum, which are mostly sold through the state food system—we believe Mexico City will remain reluctant to implement

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additional measures that could fuel inflation and intensify urban workers' dissatisfaction prior to the presidential election next July. [redacted]

Likewise, the government will find it difficult to take additional steps to liberalize agricultural imports. According to Embassy reporting, Mexican officials say they will release only a few more products from import licensing requirements. Since last year, planting seeds have been the only additional agricultural products affected. [redacted]

[redacted]

According to the US Embassy, Mexico City plans to hold back on further steps, waiting to see if any agreement on liberalizing agricultural trade surfaces from the latest round of GATT talks. [redacted]

Over the medium to long term, we believe there are even greater obstacles to increasing agricultural growth, even if Mexico complements trade liberalization measures with more appropriate farm policies. World Bank experts believe that Mexico is near the limit of possible irrigated, arable land and that new irrigation projects can bring only small increments in production. According to the US Embassy, commercial grain production in privately owned irrigated fields already is highly efficient and depends on new hybrid seeds, making significant increases in private-sector output unlikely. In addition to these structural limitations, it appears that the government has decided that land ownership laws and *ejidos* are too politically sensitive to be overhauled. [redacted]

In view of Mexico's rapid population growth and lack of land, we believe that peasant land invasions and the fragmentation of already uneconomical plots will continue. These problems are likely to be worse in the south, in our judgment, where peasants make up a comparatively high percentage of the population and unsettled land disputes have long caused rural violence. For example, in Chiapas—the site of 400 land invasions and 7,000 disputes over plots since 1980—

Mexican academics say that a 3.6-percent annual rate of population growth during the last two decades reduced the average plot size from 16 hectares in 1950 to 4 hectares in 1985. [redacted]

**Outlook**

**Rising Imports.** Despite the efforts of the de la Madrid administration, Mexico probably will remain dependent on imports to meet a growing portion of its food needs for the foreseeable future. The US Embassy indicates that infrastructural problems probably will retard the growth of the meat and dairy sectors, leaving the country reliant on imports to fill a widening gap between production and consumption. In addition, demand for feedgrains and oilseeds is highly sensitive to changes in income and almost certainly will increase once Mexico emerges from another recession this year. Price and export controls on the major grains, however, suggest that production of these crops will fall short of Mexico's needs and push imports back up from unusually low levels in 1986. According to Mexican agricultural experts, grain imports will more than double to 15 million metric tons in six years unless the government takes significant new steps. Higher agricultural imports are not likely to have a major financial impact, however, because they account for a relatively small share of total imports. [redacted]

**Socioeconomic Impact.** We believe that sluggish rates of agricultural output and shortages of arable land are likely to create more job pressures during the next decade than in the past because the industrial and services sectors are not likely to grow fast enough to absorb all the workers looking for nonfarm jobs. A slow rate of agricultural expansion, together with demographic trends and a lack of land, almost certainly will create a growing pool of surplus farm labor seeking unskilled jobs in industry and services.<sup>6</sup> The nonfarm sector, however, probably will grow by only 3 percent—less than half the 7-percent rate during the

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boom years in the sixties and seventies. As a result, we expect rural underemployment as well as open unemployment—which currently stands at 21 percent—to edge up. [redacted]

Bleak rural job opportunities and low farm incomes almost certainly will prompt thousands of farm-workers to migrate to urban centers during the coming decade. Government efforts so far to promote the development of rain-fed agriculture appear too limited to stem the tide of rural migrants. Although food processing plants are growing in number, they employ only 3 percent of the total labor force and clearly cannot absorb many landless peasants or small farmers. The magnitude of rural to urban migration almost certainly will severely strain Mexico's ability to provide housing, electricity, potable water, sewage disposal, and roads. For example, according to US Consulate reporting, an estimated 40,000 peasants move to Guadalajara—Mexico's second-largest city—each year in search of a better standard of living. We calculate that this rate of influx by itself would cause Guadalajara's population to double in 40 years. City officials say that the extension of services cannot keep pace with the growth of squatter settlements and estimate that 200,000 people already lack even minimum services. [redacted]

Mexico City's unwillingness to release some staple goods from rigid government controls, limitations on its ability to pay higher support prices to farmers, and uneconomical peasant plots suggest that Mexico's income distribution is likely to become more uneven. The government's desire to sell essential foods like tortillas at low prices, and probable constraints on its ability to jack up guaranteed prices paid to producers, probably will continue to tip the economic balance in favor of urban consumers and against peasants. Econometric simulations by academics indicate that present levels of government input subsidies to peasant farmers are far too small to keep the income gap between owners of small, unirrigated plots and large commercial farmers from widening. [redacted]

**Political Implications**

Peasant dissatisfaction with the ruling party's farm policies is on the rise. According to Embassy reporting, many campesinos are turning away from the

PRI-affiliated National Confederation of Campesinos because they believe the Confederation's slavish support for the ruling party will not bring the changes they want in farm policies. A variety of leftwing parties probably will continue to draw peasants who are unhappy with the inequitable distribution of resources, inadequate prices, and agrarian reform. [redacted]

We believe, however, that the campesinos will continue to lack the clout to gain major concessions. The Embassy indicates that there is no sign yet that opposition parties can stage a significant challenge to the Confederation's dominance of the countryside. Since 12,000 campesinos turned out for a joint protest by four opposition parties in 1985, there have been no additional major rallies even though peasants are still being hurt by government farm policies. As Mexico becomes more urban and industrialized, peasants stand an even smaller chance of influencing policymakers because agriculture's share of GDP and of the labor force will keep diminishing. Consequently, the ruling party probably will continue to give greater weight to satisfying demands from urban workers and the middle class than from peasants as it continues to evolve away from its peasant roots and develop a larger base of blue-collar and middle-class workers. [redacted]

**Implications for the United States**

Mexico's dependence on imported grains, oilseeds, meat, and dairy products will provide growing export opportunities for US farmers. The United States already is the source of about 90 percent of Mexico's food import needs and Mexican officials have indicated to the Embassy that credits from the US Commodity Credit Corporation offer a strong incentive to continue buying the bulk of their food imports from the United States. Mexico's likely emergence from a recession later this year probably will allow US food exports to pick up from depressed 1986 levels, when they totaled approximately \$900 million. The fastest

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growing markets are likely to be soybeans and corn, which currently account for 40 percent of US food sales to Mexico. [redacted]

Mexican farmers will be in a good position to increase their market share. These moves have the most potential for conflict with California, Florida, and Texas producers. [redacted]

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At the same time, the reluctance of Mexican officials to remove import licensing requirements may hurt US producers. Several times last year the Mexicans issued import licenses for oilseeds but prevented the products from entering Mexico when their delivery coincided with Mexican harvests. The US Embassy indicates that the government probably will take further steps occasionally to safeguard domestic producers and maintain domestic prices. [redacted]

Most important, the poor outlook for peasant farming suggests that illegal immigration will continue to rise. Mexico's likely inability to create sufficient jobs for growing numbers of peasant workers, dramatically higher wages in the United States, and growing US demand for cheap farm labor probably will tempt more Mexican farmworkers to risk crossing the border illegally. [redacted]

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Mexico City probably will push hard to increase fruit, vegetable, and meat exports to the United States to help offset rising imports. We believe some minor trade frictions are likely to result from these efforts. Embassy reports suggest the Mexicans are likely to press for US revocation of bans on their meat exports and restrictions on sizes of fruits shipped to the United States. The government also would like to have a certified pest-free export zone for fruits and vegetables to ease shipment to the United States. In addition, we believe the Mexicans will try to step up production of vegetables grown mainly for the US market, such as tomatoes, summer squash, and cucumbers. With a more competitive exchange rate and deep cuts in real wages during the last five years,

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