Mexico Agricultural Economy and Policy Report
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Mexico is the number two export destination for U.S. agricultural exports. Like our other NAFTA partner, we share a long border with the country and an increasingly integrated market. Full NAFTA implementation took place as scheduled on January 1, 2008, when the Government of Mexico complied with its NAFTA commitments to remove all import tariffs and administrative controls on corn, dry beans, milk powder, and sugar.

Macroeconomic Situation and Trends

Currently, Mexico has the second largest economy in Latin America, behind only Brazil, with an estimated GDP of $897 billion and a per capita GDP of $8,529. Mexico's economic growth has been positive in the last few years, but there has been a retreat from the average five percent growth of 1996-2001. Mexico's real GDP growth for 2007 was 3.3 percent, down 1.5 percent from the previous year. Mexico's economy is heavily dependent on oil exports, remittances and trade with the United States, which purchases some 82 percent of Mexico's exports. The forecast for 2008 GDP growth is even lower at 2.8 percent, in part a reflection of the U.S. recession, Mexico's dependence on the U.S. economy, and the initial effects of the global financial crisis.

Economic Situation in Agriculture

Implementation of NAFTA has opened Mexico's agricultural sector to the forces of globalization and competition while exposing many of the structural inefficiencies that have existed for decades. It is estimated that half of Mexico's producers are subsistence farmers and over 60 percent produce corn or beans with the majority of these farmers cultivating five hectares (a little over 12 acres) or less. The number of Mexican farmers has been declining, from 4.3 million (with an additional 5.5 million agricultural workers) in 1991 to 3.4 million (with an additional 4.7 million agricultural workers) in 2002. At the same time, some farmers have greatly benefited from NAFTA. In particular, fruit and vegetable exports have taken off, exceeding $4 billion to the United States alone in 2007.

Domestic Agricultural Policy

At the time of the signing of NAFTA, Mexico implemented a transitional program, PROCAMPO, which gives a payment per hectare of around U.S. $90 (higher for farmers of 1-5 hectares) to any farmer who was registered in the program and grew an eligible crop. The program was scheduled to end in 2007, but the Administration and Congress agreed to extend the program since it is the main means of support to subsistence farmers. Another program, "Alliance with You," provides technical assistance, project grants and other funding to improve food safety, develop supply chains and support mechanization. Yet another program, "Marketing Supports for Commercialization," offsets transportation costs to facilitate the movement of goods within Mexico from surplus to deficit areas or to processing facilities. A final program, "Objective Income," implemented in response to the U.S. Farm Bill, ensures that farmers earn a target price for certain crops. The total value of these programs in 2006 was approximately $2.8 billion. Some reorganization of programs in 2007 cut the value of these four programs to slightly less than that in 2006. However, overall budgeted supports were an estimated $4.2 billion in 2007, versus $3.6 billion in 2006.

General and Agricultural Trade Situation

Participation in Regional and International Fora: Mexico became a member of the GATT in 1986 and signed an FTA with the United States in 1994. Mexico now has FTAs with 42 countries and it is considering others in the future. Mexico is an active participant in Codex Alimentarius and in the WTO, including the SPS Committee. The United States and Mexico often coordinate policy for these meetings. Mexico is also an active participant in IICA and has worked actively with the U.S. and Canada to forge a NAFTA position in this forum. The United States, Mexico and Canada work actively through the North American Biotechnology Initiative (NABI) to coordinate and harmonize policies related to biotechnology.

General Trade: The United States is Mexico's most important trading partner, by far. No other country even comes close, although the share of trade with NAFTA countries has been losing ground to non-NAFTA partners. Mexico is the United States' third most important trading partner. According to Mexican statistics, total two-way trade in 2007 was $364 billion; U.S. trade numbers put this figure slightly higher at $367 billion. *Imports* - Mexico imported $283 billion in 2007, with $141 billion from the United States. Electrical machinery, machinery and vehicles and parts were Mexico's top three imports. *Exports* - Mexico exported $272 billion in 2007, with $223 billion in exports to the United States. The top exports to the United States were electric machinery, vehicles and parts, machinery, and petroleum.

Agricultural Trade: U.S. agricultural and food exports to Mexico have been climbing at an annual rate of almost 10 percent since 2002. Total agricultural, fishery, and forestry exports for 2007 were valued at $13.3 billion, surpassing total 2006 exports of $11.5 billion. Similarly, imports from Mexico in 2006 were $11 billion, passing the previous record level of $10.2 billion in 2006. Two-way trade of agricultural, forestry and fisheries products crossed the $20 billion threshold in 2006 and has continued the healthy growth pattern of the NAFTA period. While imports and exports had been growing at a relatively even pace over the last several years, the high value of U.S. export commodities during the last year gave the United States the edge in export growth in 2007.

Our most important exports in terms of total sales have been coarse grains, red meats, and soybeans representing approximately 30 percent of total exports to Mexico. Cotton, wheat, poultry and dairy products are also strongly represented in the trade mix. Fresh vegetables and fruit account for approximately 40 percent of the value of total Mexican exports to the United States. Other significant Mexican exports include snack foods, live animals, beer, and processed fruits and vegetables.

SPS and Regulatory Systems

Food safety is regulated primarily by the Secretariats of Agriculture (SAGARPA), and Health (SALUD). The Secretariat of Economy also has some input, especially in the areas of labeling and biotechnology, and is the lead agency for Mexico in international fora such as Codex. While some independent risk assessment is done in country, Mexico refers to and relies heavily on international standards of Codex, the OIE, NAPPO and other internationally recognized bodies, including U.S. regulatory agencies, as a basis for many of their standards; adjusting for local concerns and conditions.