

October 1, 1992

## SALINAS PREPARES MEXICAN AGRICULTURE FOR FREE TRADE

### INTRODUCTION

Mexico's economic revolution now has spread from the cities to the countryside. As part of his comprehensive program to liberalize and modernize the Mexican economy, President Carlos Salinas de Gortari earlier this year began a sweeping reform of Mexico's antiquated agricultural sector. In so doing, he has reversed seven decades of village socialism and has laid the foundation for a modern, market-oriented agricultural system. Together with the integration of Mexico into the world economy and the recent completion of the negotiations for the North American Free Trade Agreement (NAFTA), these agricultural reforms promise to transform the Mexican countryside and peasantry and bring prosperity to a population that has never known it.

The importance of these changes extends beyond their economic impact. They are symbolic of the deeper changes underway in Mexico and are unambiguous evidence that Mexico is shedding its socialist past and creating a modern society. Although much of the focus of Salinas's reform program has been on economics, his larger agenda embraces social and political reform as well. His major objective is to transform Mexico from a Third World country to a member of the developed world. Accomplishing this means overturning the old social and political order and remaking the country's identity.

**Emotional Issue.** At the heart of the rural social order in Mexico is the *ejido* system—a quasi-socialist system of communal land tenure. Land ownership has been a highly emotional issue throughout Mexico's history, and the *ejidos* represent a bastion of Mexico's entrenched economic, social, and political interests. Salinas's willingness to tackle this stronghold of the political left in Mexico, and his success in doing so, has demonstrated once again his mastery of political timing and the widespread support he has assembled for his program of reform. Only a few years ago, most observers would have deemed his agricultural reforms impossible; now, however, the absence of serious opposition is the clearest demonstration yet of the economic and ideological bankruptcy of the old system and the broad acceptance of the new.

Although Mexico and the Mexican peasantry are the clear beneficiaries of these reforms, the United States stands to gain as well. An open and prosperous Mexican agricultural industry increases U.S. export opportunities and creates a source of low-cost agricultural

products for the U.S. domestic market. But the most important benefit for the U.S. is that the reforms serve American strategic interests. By advancing Mexico's prosperity, these reforms of the countryside will contribute to the U.S. goal of promoting Mexico's social and political stability. Few areas of the world will have a greater importance for the U.S. over the next several decades than Mexico, and that country's entry into the developed world is the best way of ensuring that the interests of both countries are secured.<sup>1</sup>

## MEXICO'S AGRICULTURE SINCE THE REVOLUTION

Although the latent wealth of Mexico's agricultural sector is enormous, the countryside is in fact very backward. Operating far below its potential—much of it at the level of subsistence farming—Mexican agriculture has become a significant drain on the larger economy. For example, although Mexico employs 26 percent of its population in agricultural production, agriculture accounts for only 9 percent of the nation's gross domestic product. Equally serious are the social and political consequences of rural underdevelopment, most importantly the perpetuation of an impoverished peasantry and their exclusion from a market economy.

The problems of Mexican agriculture are largely man-made, the result not of nature but of failed government policies. For over seventy years, the government has extended its control over all aspects of the countryside in an effort to create a socialist system of agriculture. The results have been the same as with socialist systems elsewhere: destruction of market incentives, pervasive underdevelopment, squandering of resources, endemic poverty, and corruption.

In truth, the free market never has been allowed to operate in Mexico's agricultural sector. The landed classes and the government derived great power from their control over the countryside—a power they historically have been reluctant to give up.

**Colonial Legacy.** This legacy of controlling the countryside began in Mexico's colonial era. The feudal system of land tenure that developed for the majority of Mexicans after the Spanish conquest in 1521 resembled that of black sharecroppers and tenant farmers in the American South shortly after the Civil War. For nearly four centuries, most Mexican peasants had no land of their own and instead worked on large estates, with most of Mexico's land being controlled by a small group of landowners. The peasantry lived in perpetual indebtedness to the landowners, who used that indebtedness to tie their workers to the land.

This exploitative system, and the peasants' demand for land, were among the most important causes of the Mexican Revolution of 1910-1917. In 1910, Porfirio Diaz, who had ruled Mexico for over three decades, was overthrown by a group of revolutionary generals. Although control of the country was bitterly contested over the next several years between champions of the old order, radicals, and countless warlords, the victors who emerged were heavily influenced by socialist ideology. Among the most important was Emiliano Zapata, who had a strong following among the landless peasants in the southern part of the country. Zapata became the most vocal advocate for the redistribution of land.

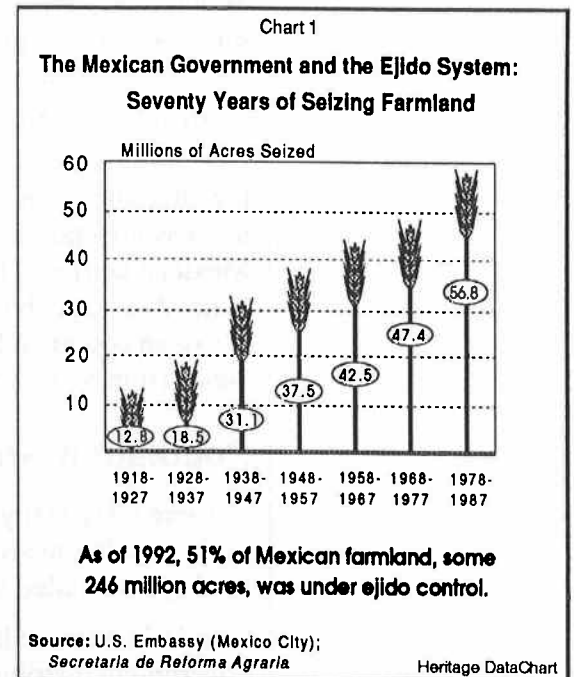
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<sup>1</sup> See Thomas E. Cox and Christopher Whalen, "From the U.S. to Mexico: Friendly Advice on Ending the Farm Crisis," Heritage Foundation *Background* No. 753, February 12, 1990.

**Constitutional Confiscation.** In 1915, then-President Zapata passed through the Mexican Congress the Agrarian Reform Act, which set the tone of Mexico's agricultural policy for the next seven decades. The most important feature of this legislation was a government commitment to redistribute land to peasants. This was followed in 1917 by a new constitution written by the revolutionary government that firmly established the principle of land redistribution. Article 27 of the Mexican Constitution conferred on each citizen a right to land and obligated the government to provide it. This provision also gave the government the right to confiscate unused or underutilized lands and distribute them to Mexicans who petitioned the government for land. The government also acquired extensive powers to regulate all aspects of the countryside.

In its redistribution program, the government rejected giving land to individual farmers and instead established the *ejido*, or communal farming system. The government divided land into plots that were cultivated individually or collectively, but they were owned communally by the *ejido*. Ownership of the land, however, remained in the hands of the state. This communal or *ejido* definition of land was written into the Constitution in 1917. The state saw private ownership of land as "unsuited" to Mexico's agricultural traditions, and the *ejido* was regarded as being more in line with the socialism favored by the Mexican government at that time. Not incidentally, the *ejido* system also provided the government with greater control over the countryside and the peasantry. This control became a major instrument of power for the ruling party—the *Partido Revolucionario Institucional* (PRI)—which ruled over the peasantry through the appointed administrators of the *ejido* system and the local patronage they exercise.

Once the country achieved stability after the long and bloody years of the Revolution, conditions in the agricultural sector were generally favorable. For twenty years following the Revolution, fallow land once under the control of vast estates was cultivated as peasants worked the newly formed *ejidos*. Between 1940 and 1960 agricultural production in Mexico grew at an average rate of 4.6 percent, compared with 2.7 percent for all Latin America. The principal cause of this growth, however, was not an increase in the efficiency of production, but the introduction of new harvesting and irrigation equipment and high-yield, pest-resistant crops. Also, new lands were brought under the plow as *ejido* farms were created and as private landowners cultivated formerly fallow land, hoping thereby to avoid its confiscation.<sup>2</sup>



2 John Richard Heath and Gioia Palmieri, "Enhancing the Contribution of the Land Reform Sector to Mexican Agricultural Development," Agriculture Operations Division of the Latin America and the Caribbean Regional Office, World Bank, Report # 8310-ME, March 30, 1990, p. 27.

Confiscations, however, continued, and an ever-increasing percentage of land was brought under the *ejido* system. By 1988, half of Mexico's arable land was controlled by the government through the *ejido* system.

### **State Intervention Impoverishes the Mexican Countryside**

The growth of Mexican agriculture in these years, however, masked major problems. Had *ejido* farms been as efficient as private ones, Mexican agriculture would not have been harmed as the number of *ejidos* grew and eventually dominated Mexican agriculture. The *ejido* system worked against the emergence of modern, efficient farms and led instead to the creation of very small farms of less than twelve acres. Dedicated to subsistence farming, these small farms became substantially isolated from the national and international economy.

Under Mexican law, the peasants grouped in an *ejido* could neither sell nor rent the property; title remained in the hands of the government. As a result, farmers had little incentive to invest in and improve the land they worked. The lack of capital and market incentives hampered modernization and mechanization. Government control over all aspects of the agricultural system steadily increased, from the regulation of prices to the establishment of monopolies over purchasing and supply. In effect, the *ejidos* became simple extensions of the economic and social planning bureaucracies in Mexico City.

When President Salinas took office in 1988, he inherited an agricultural system in crisis. Despite strenuous efforts by the government to fulfill its constitutional mandate to distribute land, the promises of the revolution to the peasants had not been fulfilled. Rural Mexico was now poorer than ever. Rural Mexican wages were one-third that of the average Mexican worker. The enormous resources of the countryside were largely untapped and remained securely bound by government control. Undercapitalized and underdeveloped, the Mexican countryside in 1988 was little better than it was when Mexico won its independence from Spain in 1821.

### **Population Growth Hampers Land Distribution**

There were many sources of Mexico's agricultural problems, but an important one was rapid population growth over the last fifty years. The state-owned and -controlled agricultural system failed to adapt to Mexico's population explosion.

In 1917 Mexico had a population of only 13 million people. Between 1915 to 1938, the government distributed 18.5 million acres to the peasants, but this represented only six percent of Mexico's farmland at that time, and it met most of the demands from Mexicans for land. However, by 1940 Mexico's population had grown to 20 million. From 1938 to 1943 the government confiscated and distributed an additional 44.5 million acres as the growing rural population demanded more land. Thirty years later, the population had increased 155 percent to 51 million,<sup>3</sup> creating tremendous pressures for further land confiscations and re-distributions. President Luis Echeverria Alvarez, who took office in 1970, expropriated 30 million acres from private farmers between 1970 and 1976, but only half of that was redistributed to peasants. The rest either remained in the government's hands or was distributed

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3 Alan Riding, *Distant Neighbors: A Portrait of the Mexicans* (New York: Alfred A. Knopf, Inc., 1984), p. 220.

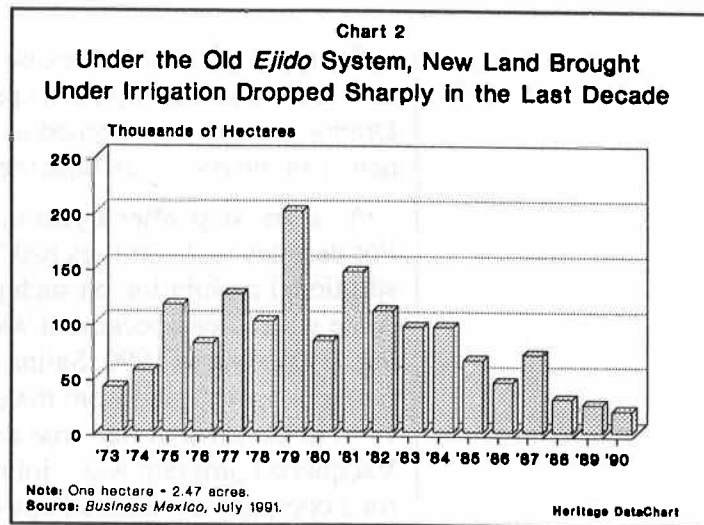
to wealthy Mexicans with political connections. By the time Echeverria left office, *ejido* lands had jumped from one fourth to almost one half of total agricultural lands. The next Mexican President, Jose Lopez Portillo, seized 40 million additional acres, 16.5 million of which he made into *ejidos* between 1976 and 1980.<sup>4</sup>

By 1988 Mexico had a population of 81 million, with 25 million living in rural areas. When Salinas came to office that year, 3 million petitions for land were on file. However, little unused arable land remained to be confiscated. Over 70 million acres had been seized during the previous twenty years alone, totalling over 246 million acres since the Revolution.

Not only had the number of *ejido* farms increased dramatically, but they had been subdivided numerous times, with a depressing effect on income and productivity. Sixty percent of all arable land was in *ejido* farms that averaged less than 11.5 acres, which is one-tenth the size of the average U.S. farm.<sup>5</sup> *Ejido* farmers working these smaller plots received less than one-sixth the salary of *ejido* farmers working on plots larger than 18 acres.

**Absence of Private Property Rights.** A more serious problem than the *ejido*'s size was the absence of private property rights. Without private ownership, *ejido* farmers had little incentive to improve the land they worked. In addition, the Constitution's broad mandate granting the government "caretaker" status of *ejido* lands prompted Mexico City to adopt a paternalistic stance toward the *ejido* farmer. Government control over all phases of agricultural production grew steadily, embracing crop selection, planting time, fertilizers, marketing, prices, and credit. Increasing government control meant worsening results, especially in agriculture where decision-making must be sensitive to daily, local, and individual conditions. In the absence of a market economy, *ejido* farmers were grossly inefficient. Private farmers in Mexico today are, on average, five times more productive than their counterparts on the government-owned and -controlled *ejidos*.<sup>6</sup>

Article 27 of the Constitution prohibited *ejido* farmers from mortgaging the land or using it as collateral for loans, making it virtually impossible to obtain private credit. *Ejido* farmers were also prevented from renting their land to others. These legal prohibitions prevented farmers from developing their land. For instance, in spite of advances in irrigation technologies, the amount of Mexican land under irrigation has decreased dramatically over the last



4 Large confiscations occurred during the administration of almost every Mexican President since the revolution. By 1991 Mexico's Revolutionary Government had confiscated 246 million acres that were converted into *ejido* lands.  
5 Luis Tellez, "Imperativo de Cambio en el Campo Mexicano," February 16, 1992, p. 3.  
6 *Ibid.*, p. 4.

two decades. Today only 14.8 million of Mexico's 234 million acres of agricultural lands are irrigated.<sup>7</sup>

Between 1950 and 1965 agricultural production grew by 6.3 percent annually, in spite of an increase in land cultivation by communal farms. The reason: the introduction of new seed and fertilizer technologies to Mexico.<sup>8</sup> However, the annual growth of agricultural production slowed to 2.9 percent from 1966 to 1980 as more *ejidos* displaced private farmers. During the 1980s production ceased to grow at all and even began to decline, falling 3.9 percent and 4.3 percent in 1988 and 1989, respectively. In 1990-1991 there was modest growth because of unseasonably good rainfall, the government's withdrawal of farming subsidies, and deregulation which forced farmers to use resources in more efficient crop production.

**Economic Drag.** Besides suffering low productivity, Mexican agriculture is a tremendous drag on the rest of the economy. For example, agricultural production represented 9 percent of Mexico's GDP in 1991, and yet it absorbed 26 percent of the labor force.<sup>9</sup> According to the World Bank, 11 million of the 27 million rural Mexicans live in extreme poverty, the principal cause being "lagging rural and agricultural development."<sup>10</sup>

These ill effects of Mexico's agricultural crisis are also evident in the deterioration of the country's agricultural trade balance. From 1960 to 1965 Mexico had an annual average agricultural trade surplus equal to 2.3 percent of Mexico's GDP. By 1979 that annual figure had fallen to only 0.7 percent of GDP. By 1989 Mexico's agricultural surpluses had disappeared: from 1980 to 1989 Mexico had an average annual agricultural trade deficit representing 0.3 percent of GDP. During the 1980s Mexico was reduced to importing beans and corn, which had been grown at home in sufficient quantities for centuries.

## SALINAS REVOLUTIONIZES MEXICAN AGRICULTURE

Salinas realized that Mexico could not fully modernize its economy and provide a decent standard of living for its peasantry unless it reformed its agricultural system radically. Dramatic steps were needed to turn around a system that threatened to keep Mexico permanently in the role of an underdeveloped country.

As a first step, after a year in office, Salinas began limited reforms of the *ejido* system. For decades *ejido* farmers had "rented" state-owned lands to private farmers, despite a constitutional prohibition on such practices. "Rentismo," as the Mexicans called it, had become widespread because it was one of the few ways the communal farms could earn a living. Beginning in 1990, Salinas set up 79 pilot projects to legalize *ejido* land rentals and also to attract capital from the private sector. The first such program was started in May 1990 in the town of San Jose de Vacquerias in the northern state of Nuevo Leon. The Vacquerias program was a joint business venture between Gamesa Corporation, a Mexican food company owned by PepsiCo, and a local *ejido* association.

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7 *Ibid.*, p. 3.

8 Paul L. Yates, *Mexico's Agricultural Dilemma* (Tucson, Arizona: University of Arizona Press, 1981), p. 19.

9 "Profile of Mexican Agriculture," U.S. Embassy, Mexico City, March 20, 1992, p. 2.

10 Heath and Palmieri, *op. cit.*, p. 35.

Under the agreement Gamesa contracted a purchase agreement with the *ejido* association for wheat and agreed to invest \$6 million in the *ejido* for irrigation, seeds, fertilizers, and equipment; in return, the *ejido* supplied the land and labor to grow the wheat. Since the project began in 1990, Vacquerias has had two harvests per year compared to annual harvests in previous years, and it has increased output by 100 percent. The venture was so successful that investors received a 29.6 percent return on their investment. A portion of these profits was passed on to the workers in salaries three times the amount stipulated in the contract between the workers and the investors. Thereafter known as the "Vacquerias program," this model has been copied in other regions of the country, most notably in the Mexican states of Vera Cruz and Jalisco.<sup>11</sup>

These and other free market reforms have been resisted by leftist and nationalist forces who claim Salinas violated the Mexican Constitution and undermined the Mexican Revolution's achievements in the countryside. But far from undermining the peasantry, Salinas was attempting to rescue it from the agricultural disaster caused by the *ejido* system.<sup>12</sup> In his 1991 State of the Nation address Salinas declared:

The land distribution established more than fifty years ago... in its time brought justice to the countryside. But to attempt in the present circumstances to continue along the path then followed, no longer signifies prosperity for the country or justice for the campesinos. In the past, land distribution was a path of justice; today it is unproductive and impoverishing.<sup>13</sup>

**Constitutional Changes.** Salinas went on to announce sweeping reforms in Mexico's agricultural system. In February 1992 the Mexican Congress adopted Salinas's free market reform package for the Mexican countryside. In this Salinas proposed to reduce drastically the government's role in agriculture, establish private property rights, integrate the agricultural sector into the larger market economy and thus bring it into the 20th century.

These changes included amending the Constitution to remove the automatic "right" to land and the government's direct obligation to provide it. The government also lost the power to expropriate lands it deemed "unused or underused." In addition, the agency governing land confiscations and distributions, the Secretariat of Agrarian Reform, was reduced in size and much of its authority taken away.

Under the new law, individual *ejido* farmers will be given title to their land. They also will be able to sell it, rent it to other *ejido* associations or private corporations, use the land as collateral for loans, and pass the land on to their heirs. Limits on acreage have been relaxed. Formerly, individual *ejido* farmers were not allowed to "own" more than 247 acres of irrigated land, 496 acres of non-irrigated land, or 1,976 acres of forests. The new law allows the creation of corporations or associations that legally can own 25 times that limit: 6,175 irrigated acres, 12,350 nonirrigated acres, or 49,400 acres of forest. This will im-

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11 Roberto Salinas, "Ejido + Private Sector," *Business Mexico*, July 1991, p. 27.

12 Tellez, *op. cit.*, p. 4.

13 Carlos Salinas de Gortari, "Third State of the Nation Report" (Presidencia de la Republica Direccion General de Comunicacion Social, 1 November 1991), p. 69.

## Salinas's Agricultural Reforms to Mexico's Constitution

### Article 27 before Salinas

1. Government obligated to provide land to every Mexican.
2. Government has power to expropriate land to distribute to farmers.
3. Only Mexican nationals or associations have the right to own land or acquire rights to water.
4. Renting of *ejido* farms is prohibited
5. *Ejido* farmer prohibited from using *ejido* land as collateral for loans
6. *Ejido* farmers prohibited from associating with commercial groups in joint ventures
7. Children of *ejido* farmers prohibited from receiving rights to land the parents farmed.
8. Legal system to protect farmers' rights is controlled by the executive branch, the same branch that decides property ownership in the first place.

### Article 27 with Salinas

1. Mexicans have no constitutional "right" to receive land from the government.
2. Mexican government under no obligation to expropriate lands to give to farmers.
3. Foreigners can own agricultural lands and acquire rights to water.
4. *Ejido* groups have the right to own the land or rent it to other private groups.
5. *Ejido* farmer can use farm as collateral or mortgage farm land to buy farming equipment, fertilizers, and seed.
6. *Ejido* groups can form associations or joint ventures with commercial groups. Non-*ejido* commercial groups (including foreigners) allowed to purchase *ejido* lands.
7. *Ejido* farmers can own their lands, and exercise full property rights to the land, including the transfer of land titles to future generations.
8. New tribunals established to decide land disputes will be independent of the executive branch.

prove agricultural efficiency by creating economies of scale where associations and corporations can pool resources for credit and equipment purchases.

The prohibition on foreign ownership renting of farm land of any type has also been removed. This is especially important for the growth of agribusiness. The new legislation also establishes independent tribunals that will adjudicate land disputes over ownership rights to farmland. Formerly, the executive branch operated as rule-maker, enforcer, and judge of land rights, creating a system where corruption and abuse were common.

In addition to denying private property rights to farmers, the old Article 27 gave the government extensive power over both private and *ejido* land and the agricultural system in general. As a consequence, the Mexican government created enormous government-owned monopolies to supply Mexican farmers with credit, fertilizer, seeds, irrigation equipment, and water. The government also became the purchaser and marketer of food production, using price supports and production requirements to regulate the market. The result was the creation of a rigid system, guided more by political and bureaucratic requirements than market forces. This system told farmers what to grow, restricted the private sector



from providing farmers with necessary supplies and equipment, and effectively limited private-sector financing.

Realizing that private property rights were meaningless when dominated by government monopolies, Salinas cut back the role of the state. Most important, he reduced the power and budget of the state food distribution monopoly CONASUPO.<sup>14</sup> Formerly, CONASUPO set prices on most food commodities and was the monopoly purchaser and distributor for most foodstuffs. Today, CONASUPO supports artificial prices for only two commodities: beans and corn, which are staples of the Mexican diet. Similarly, the government's monopoly on fertilizer production and distribution in Mexico was ended in 1991 with the privatization of the state-owned fertilizer company, FERTIMEX.<sup>15</sup>

These reforms will have far-reaching effects on the agricultural sector beyond the *ejidos*. In the past, extensive land confiscations had a pernicious effect on private farmers, even on those whose land was not seized. Since both small and large private property owners could find their land taken at any time, Mexican landowners had little incentive to improve their plots, never knowing when future confiscations would wipe out their investment.<sup>16</sup> The small farmers were disproportionately affected because they had neither the money nor the political connections to prevent their lands from being confiscated. Now that the prospect of confiscations is gone, private farmers will have greater incentives to invest in long-term production and improvement of their lands.

## BENEFITS TO THE U.S. AND MEXICO UNDER AGRICULTURAL REFORMS

Mexicans themselves will be the principal beneficiaries of Salinas's reforms; the United States will benefit significantly, too. Lower prices paid by U.S. consumers, opportunities for U.S. businesses, reduced illegal immigration, and improved environmental protection in Mexico—as agribusiness industries use safer pesticides and fertilizers—will be among the long-term benefits of these reforms.

**Advantages to U.S. Consumers and Businesses.** As more fruits and vegetables are grown more efficiently in Mexico, U.S. consumers will have a wider variety of food products at lower costs. In the U.S., labor accounts for nearly 40 percent of the cost of the cultivation of fruits and vegetables.<sup>17</sup> In 1987 those costs amounted to \$1.75 billion in such horticultural specialty products as tomatoes, peppers, and cucumbers, \$1.2 billion in melons and vegetables, and \$2.1 billion in fruit and nuts. Those costs, passed on to the American consumer in higher prices, will be reduced as more of this food is grown in Mexico. Although some Mexican food products, such as tomatoes, compete directly with food producers in the U.S., Mexico's growing seasons for fruits and vegetables often occur in the American "off-season" when domestically grown products are unavailable or costly. Reduced costs on basic food items like fruits and vegetables will most benefit poor Ameri-

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14 CONASUPO stands for Compañia Nacional de Subsistencias Populares.

15 FERTIMEX stands for Fertilizantes Mexicanas.

16 R. L. Barnes, "Proposed Mexican Land Tenure Reform," Report #MX 1246, Agricultural Affairs Office, U.S. Embassy, Mexico City, January 1992, p. 4.

17 James A. Duffield and Lewell Gunter, "Will Immigration Reform Affect the Economic Competitiveness of Labor-Intensive Crops?" Agriculture and Rural Economy Division, U.S. Department of Agriculture, May 1991, p. 7.

cans who, as a percentage of their income, spend twice as much on food as the average American.

U.S. businesses will benefit also from Salinas's agrarian reforms and deregulation, which embrace not just the *ejidos* but the entire food production and distribution system. Mexico has a population of 81 million, almost one-third that of the U.S. Mexican demand for food products will grow 5 to 6 percent during the 1990s, almost double the rate of Mexico's population growth.<sup>18</sup> Mexico already represents a \$21 billion market for U.S. food producers, and new opportunities will open up for American exporters as this grows. Already, Mexico's middle-class has developed a growing appetite for U.S. food products. According to the U.S. Embassy in Mexico, "Imports of products such as frozen foods and microwavable foods have more than doubled in the last several years."<sup>19</sup> The NAFTA will reduce tariffs and import restrictions on most U.S. food products entering Mexico. Of even greater importance are the agricultural reforms that will allow U.S. agricultural companies to compete with formerly government-owned food distribution companies and monopolies in Mexico, such as CONASUPO. FERTIMEX, the government fertilizer monopoly, is being privatized, and foreign companies can now sell fertilizers in Mexico.

The *ejido* reforms also have made it possible for U.S. companies to expand their operations to Mexico, thereby helping them to stay competitive in the global market. The flower industry is one example. Joint ventures with Mexican companies are now helping U.S. flower producers capture that part of the U.S. market that historically has gone to European companies.<sup>20</sup>

Several other projects now underway highlight the importance of the growing strategic partnership between companies in the U.S. and Mexico in the agribusiness sector.<sup>21</sup> Companies involved in U.S.-American agribusiness are:

**Tropicana Foods, Inc.** Tropicana, a U.S. company specializing in fruit juice production and distribution, has begun two projects for producing oranges, one privately owned and the other a joint venture with *ejido* farmers. In this division of labor, the Mexican company will be responsible for production and processing, while Tropicana will market the orange juice both in Mexico and internationally.

**Green Giant Corporation.** Green Giant, a Mexican-based subsidiary of Pillsbury Foods, Inc., processes and packages vegetables in the state of Guanajuato in Mexico. Green Giant is involved in the entire production process in Mexico from the production and package of vegetables to their marketing and distribution. Its operations in Mexico support exports to the U.S. and the rest of the world.

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18 "Profile of Mexican Agriculture," p. 6.

19 "Economic Trends Report," U.S. Embassy, Mexico City, August 1991, p. 50.

20 "Opportunities in the Mexican Agricultural Sector," Mexican Secretary of Agriculture and Water Resources, Subsecretary of Planning, 1991, p. 15.

21 *Ibid.*, p. 29.

**PepsiCo, Inc.** PepsiCo is involved in two projects in Mexico. One is a joint venture with an *ejido* farm and the Mexican cookie and cracker producer Gamesa. In this project PepsiCo is providing capital, Gamesa the Mexican distribution network, and the *ejidos* the labor and land. PepsiCo is using this project to further penetrate the growing Mexican market. PepsiCo's other joint venture is with the Mexican bread company Bimbo to produce corn and potato products for Bimbo's line of products in Mexico.

**Grupo Trasgo.** The Trasgo group is a consortium of Mexican companies operating joint ventures with U.S. companies. Trasgo is working with Tyson Foods Company, a U.S.-based chicken producer, in poultry growing and packaging. Fifty percent of the production in this project is sold in the Japanese market.

As the *ejido* reforms place more Mexican land into productive agriculture, the demand for farm machinery, irrigation equipment, seeds, and fertilizer will grow dramatically. In these and other areas, the U.S. is the supplier of choice. Last year the U.S. supplied over 75 percent of Mexico's imports of machinery and equipment, including that used in agriculture. These exports are expected to increase as food demand grows an estimated 5 to 6 percent during the next ten years because rising incomes and population and the positive effects of agricultural reforms.

**Stemming Illegal Immigration.** The illegal immigration of Mexican workers into the U.S. has long been a sensitive issue, clouding U.S.-Mexico relations for decades. Last year U.S. immigration officials caught over 1.1 million people trying to enter the U.S. illegally across the U.S.-Mexico border, 87 percent of which were Mexicans. The U.S. Border Patrol estimates that only one in ten aliens attempting to cross the border is caught.

Most illegal immigrants from Mexico come from rural areas. *Ejido* life has impoverished the Mexican farmer and made even subsistence living difficult in many places. Many *ejido* farmers therefore migrate to the U.S. in search of work. According to Antonio Hernandez, director of a cooperative representing 2,850 *ejidos* in the Bajio region of Mexico, 70 percent of his cooperative has at least one family member working in the United States.<sup>22</sup> Salinas's reforms will keep more Mexicans at home as they see the opportunities now available at growing and harvesting their own crops.

**Promoting Environmental Protection.** Mexico's legacy of government intervention and public ownership of lands has led to destructive behavior by Mexican farmers, miners, and lumber companies. Without private ownership, *ejido* farmers have had little incentive to improve their properties for future generations, and this has contributed to the degradation of the land. The uncertainty of land rights in general, made worse by repeated confiscations, has caused even private property owners to neglect their lands. Many farmers, therefore, choose to exploit their land for short-term profits instead of spending the time and money in irrigation and crop rotation to protect their lands. As a result, overuse has depleted much of Mexico's best soil and made marginal farm lands barren. For example,

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22 Dianna Solis, "Agricultural Reform in Mexico Leaves Farmers Wanting, and Fearing, Change," *The Wall Street Journal*, February 26, 1992, p. A4.

*ejido* farmers in the southern state of Chiapas are destroying large segments of tropical forests in primitive slash and burn techniques in order to open new land for planting.

The degradation of the rural environment should stop once Salinas's reforms take hold. The new constitution gives farmers ownership and, consequently, responsibility over the protection and long-term care of these lands. Possessing property rights, farmers no longer will have an incentive to destroy the rural environment.

Mexico's forests also will be better protected under the agrarian reforms. Today 80 percent of Mexican forests are held communally or owned by the federal government. These lands are often rented to lumber companies for short-term contracts to harvest trees. The absence of private property rights means that those who have temporary control of the resources will be motivated to make the quickest profit from them. A U.S. Embassy study found that such a system created "every incentive to clear-cut the land and little to replant."<sup>23</sup> The recent reforms allow private ownership of forestry lands. Since land now can be owned for long periods, rather than being rented for only a few years, owners will have incentives to replant trees for future harvests.

**Creating Strategic Stability.** Mexico is America's most populous neighbor and one of the most important countries in Latin America. There is no escaping the reality that instability there will adversely affect the U.S. Massive immigration into the U.S. is only one example of domestic problems which have their origin in Mexico. Social and political instability there would produce unforeseeable and disturbing consequences along the 2,000 mile border. Only by securing Mexico's stability can the U.S. hope to cope with these threats.

Social and political stability will be served well by Salinas's agricultural reforms. If the agricultural economy grows, more jobs will be created and the standard of living of Mexican farmers will rise. Economic growth is a critical element of social and political stability in Mexico.

For most of their common history, relations between the U.S. and Mexico have been distant and difficult. Now, with Salinas's reforms and improved relations with the U.S., there is the opportunity to move beyond this legacy. The signing of the NAFTA is an historic achievement, for it joins the two countries together in an ever-closer relationship and creates the foundation for them not just to get along but to become partners in North America. In the uncertainties of the post-Cold War world, the U.S. will have a need for such friends.

## CONCLUSION

Privatizing Mexico's *ejido*, or state-owned communal farming system, is the most radical and yet the most necessary of Salinas's economic reforms. The radical agrarian reforms of the 1917 Mexican Revolution were seen by many as justified by the country's feudal past. At first, they were focused on breaking the power of the landed elite and providing land to millions of peasants who previously had none. However, 75 years of land confiscations, redistributions, and other forms of government intervention have devastated Mexican agriculture and the very peasantry they were intended to help. The increasing government role in agriculture during those decades, combined with the Mexican Constitution's

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23 Barnes, *op. cit.* p. 5.

bias against private property, created an environment in which the government effectively replaced the wealthy landlords of the past with its own form of dominance over the Mexican farmer. By the 1980s the Mexican *ejido* system served neither the farmer nor the country as a whole.

**Overwhelmingly Beneficial.** Salinas's reforms have transformed the way Mexicans look at land and at their government's role in the economic and social life of the countryside. By breaking with the agricultural socialism of the past and by creating the conditions for the market economy to flourish, Salinas has set the stage for a far-reaching and overwhelmingly beneficial transformation of Mexico's countryside. Modernization will bring increased output, rising incomes, and increased exports.

For Mexico, the benefits from this reform reach far beyond the new wealth it will create. The Mexican environment is certain to be better protected as more land is placed in private hands. Democracy will be strengthened as Mexican peasants increase their control over the land they work. As their economic freedoms grow, the power of the state to control their lives will diminish. These agricultural reforms are one more step in bringing Mexico into the modern world and in providing its population with the prosperity and freedom they have so long sought. For this reason alone, the U.S. stands to benefit greatly.

For the United States, there are direct benefits as well. U.S. consumers will benefit from better choices and lower costs resulting from expanded, more efficient production. American farm equipment producers and agricultural businesses will profit from the new markets for farm and irrigation equipment, seeds, and fertilizers. In addition, U.S. investment in Mexican agriculture, once shunned, is now encouraged, opening opportunities for joint ventures between Mexican and U.S. agribusiness companies. All told, the economic benefits to the U.S. from the opening of Mexico's food industry will be measured in the billions of dollars, and ten of thousands of Americans jobs. And, as a solution to Mexico's pressing problem of providing jobs for its rural population, an expanding Mexican economy will stem the flow of illegal immigrants to the United States.

**Indissolubly Linked.** Ratification of the NAFTA, of course, is essential to the U.S. benefiting from these reforms, for only when goods and services can pass freely between the two countries will American consumers and businesses be able to make use of these new opportunities. By joining together the economies of the U.S., Mexico, and Canada, NAFTA will ensure that sound free market policies like Mexico's agricultural reform are rewarded far beyond their intended national impact. As North America's continental economy comes into being, its citizens and governments will discover increasingly that their prosperity and their futures are indissolubly linked.

Wesley R. Smith  
Policy Analyst

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