

Half Full or Half Empty?

Free Trade Means Risks, Opportunities for Arizona Vegetables

By Susan McGinley

YOUR WINTERTIME DINNER SALAD IS AN INTERNATIONAL affair, and most people accept this as a blessing. It may include lettuce and onions from Yuma, along with tomatoes, cucumbers and bell peppers fresh from the warm soils of Sinaloa, Mexico.

But some fear the entire salad may soon come from Mexico, once the North American Free Trade Agreement (NAFTA) takes effect this year.

Arizona growers of labor-intensive horticultural, or salad-bowl crops, point to Mexico's huge labor pool and lower wages, and worry they'll be swamped by lower-cost Mexican produce.

Though most Arizonans are not yet aware of it, the effects of this scenario would reverberate far beyond the Yuma lettuce fields, which now account for 95 percent of the winter lettuce on U.S. tables. Indeed, Arizona's vegetable crop brings in around \$500 million in revenues per year, as much as cotton and cattle each, two better-known mainstays of the state's farm sector.

But is this scenario inevitable? University of Arizona Extension agricultural economist Julie Leones thinks not.

Leones has been studying the possible effects of the trade agreement on crops grown in the U.S. and Mexico, and she sees the future taking shape as a complex network of risks and rewards for farmers in Arizona and elsewhere.

Results won't be completely negative for U.S. growers, including those in Arizona, she predicts. In fact, there will be winners and losers on both sides of the border, Leones says.

Clearly, some sectors must adapt or suffer. Arizona applegrowers, for instance, are well-positioned to compete with Mexican applegrowers, by virtue of better growing conditions and production technology. But Arizona also must contend with the enormous and well-organized Washington



state apple producers, who currently have a virtual lock on exports to Mexico.

If the Arizonans can persuade Mexico to revise its import restrictions, however, they could profit from their close proximity to the border, notes UA agricultural economist Harry Ayer.

"Some [growers] are trying to decide whether they should switch to a particular niche market, or change to a variety not grown in Mexico," Leones says. "Others wonder whether they should move their operations to Mexico or get out of agriculture altogether."

The climate for bi-national farming operations, for instance, has improved radically within the last year. In January, 1992, Mexico amended its constitution, making it possible — for the first time since the Mexican Revolution — for stock-issuing corporations to acquire, own or operate farms in Mexico, says Tom Karst, markets editor of *The Packer*, a trade publication.

This amendment represents an historic change in the country's political thinking, which had aimed since 1917 to prevent the concentration of large amounts of land in the hands of a few.

The amendment has far-reaching implications for small producers, communal farms and corporate agricultural enterprises, Leones says. "Mexico is going out of its way to encourage investment," she says. "They're not very excited about importing goods, but they would like to see private investments replace international aid and foreign debt in driving economic development. To achieve this, they know that liberalized trade policies must be in effect."

Leones stresses that Mexico has made it much easier to arrange joint ventures, and has secured private property rights for both Mexican and foreign investors. Land can no longer be seized and redistributed by the government, and acreage on ejidos (government-sanctioned farm collectives) can be rented out to U.S. farmers.



USDA food inspector Joel Floyd monitors the growing tide of Mexican-grown vegetables heading north as trade restrictions ease. Recent changes in the Mexican constitution open the door for U.S. farmers to operate on both sides of the border.

Michael Stoklos photos

The only caveat is that foreigners still cannot own land within 100 kilometers (about 60 miles) of a border or within 50 kilometers of the coast.

American companies with production areas in both Mexico and the United States could take advantage of the predicted expansion of horticultural crops in Mexico. For instance, growing the same crop during different seasons in both the U.S. and Mexico would provide revenue to these firms year-round.

But where does this leave Arizona salad-bowl growers, many of whom sell products during the same season as Mexico and face higher labor costs as well? Their margin of advantage is less obvious, but Leones has found the scales are not as lopsided as they appear at first glance.

U.S. growers have the advantage of better research and technology, which cuts costs and improves yields. In addition, interest rates on loans are higher in Mexico, so it costs more to get a crop in the ground, or to expand. And some growers with experience in Mexico contend that labor, while more abundant, is less efficient.

Mexican horticultural production has a lot of expanding to do before it starts bumping U.S.-grown vegetables off the table.

The U.S. consumes 96 percent of Mexican agricultural exports — but Mexican vegetables amount to less than five percent of the total U.S. horticultural output, according to University of California agricultural economist Roberta Cook.

Moreover, Cook says, Mexico's internal demand for these crops is bound to increase as its population and per-capita income edge upward. The phenomenon is already happening in Sinaloa, the major tomato-exporting area in Mexico, where the export portion of the crop has dropped over the last few years. Four years ago, Sinaloa exported 70 to 80 percent of its tomato crop; it now exports less than half, Cook says.

In the future, with more extensively developed irrigation, Mexico could expand the amount of acreage devoted to

horticultural crops, increasing both its own consumption and its exports to the U.S.

If NAFTA's expected impact on Mexico's bread-and-butter crops occurs, the country may need all the growth in horticultural farming it can create. Under NAFTA, the U.S. stands to put a bigger dent in Mexico's production of grain and oilseeds, which represent the bulk of its agricultural output, than any impact by Mexico on U.S. agriculture.

"We think of Mexico as a big horticultural crop producer," Leones says. "But internally, 76 percent of all cropland is in sorghum, wheat, soybeans and corn, according to 1990 figures."

Over a 10- to 15-year period, tariffs on U.S. grains and oilseeds entering Mexico will be lowered and quotas will be increased, opening the way for a potential flood from the world's most efficient grain producer.

The competition could displace thousands of small farmers — the "pequenos propietarios" whose corn patches, orchards and small cattle herds have defined Mexican agriculture since its revolution.

(Prior to the recent constitutional amendments, Mexican land-tenure regulations allowed only these small holdings and the ejidos, collectives in which there were no individual property rights and no leasing allowed.)

More than one-fourth of Mexico's workforce is involved in agriculture, many as small producers of grain, Leones says. With a large population under 18, a high birth rate and high unemployment, any displacement of large numbers of workers is fraught with danger. "We think it's scary importing tomatoes from Mexico, but they stand to lose more since corn and soybeans are their main crops," Leones says.

Leones sees the agreement as an effort to manage agricultural trade in the short run in preparation for a trade landscape with significantly fewer barriers in the long run. To the extent that the agreement does result in gradual, managed changes, it will give producers in both countries time to adjust.