First published by Global Post
January 2, 2014

How beer explains 20 years of NAFTA's devastating effects on Mexico

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Mexico's largest agribusiness association invited me to Aguascalientes to participate in its annual forum in October. The theme for this year's gathering was "New Perspectives on the Challenge of Feeding the World."

But it was unclear why Mexico, which now imports 42 percent of its food, would be worried about feeding the world. It wasn't doing so well feeding its own people.

In part, you can thank the North American Free Trade Agreement (NAFTA) for that. Twenty years ago, on January 1, 1994, NAFTA took effect, and Mexico was the poster child for the wonders of free trade. The promises seemed endless.

Mexico would enter the "First World" of developed countries on the crest of rising trade and foreign investment. Its dynamic manufacturing sector would create so many jobs it would not only end the US immigration problem but absorb millions of peasant farmers freed from their unproductive toil in the fields. Mexico could import cheap corn and export electronics.

So much for promises.

NAFTA produced a devastating one-two punch. For the first 10 years, the flood of US exports of corn, wheat, meat and other staples drove Mexican producer prices well below the costs of production.

Mexico's three million small-scale corn farmers saw prices for their crops fall 66 percent, largely because the United States increased corn exports by 400 percent, exporting at prices 19 percent below even US farmers' costs of production. (See my earlier study.) Call it the Age of Agricultural Dumping.

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Soybeans, wheat, cotton and rice saw similar export surges under NAFTA, with similar drops in producer prices. Mexico's agricultural exports to the United States increased as well, but it takes a lot of tomatoes and strawberries to make up for the surge in staple-food imports.

By the mid-2000s, Mexico was importing 42 percent of its food, mostly from the United States. Corn import dependence had grown from 8 percent before NAFTA to 32 percent. Mexico was importing nearly 60 percent of its wheat where before it had imported less than 20 percent.

Import dependence was more than 70 percent for soybeans, rice and cotton.

Then came the sucker punch. In 2007, international prices for many staple crops doubled or tripled, and so did the cost of importing them. Countries like Mexico that had gotten hooked on cheap imports paid a heavy price. Call it the Age of Dependency.

US policies had as much to do with these high and volatile prices as they had with the Age of Dumping. Now, instead of price-depressing surpluses caused by US agricultural policies, US subsidies and incentives were diverting 40 percent of US corn — 15 percent of the global supply — into ethanol production.

This drove up the price of corn, but also prices for related crops, like soybeans and wheat, and the livestock products that had relied for so long on cheap feed.

Compounding the price volatility, US deregulation of financial markets in the early 2000s had brought agricultural commodity markets into the global casino. Financial speculators, fleeing the collapsing US housing and stock markets in 2007, went "all in" on commodities, driving prices to disruptive highs, then lows, then highs again.

This was devastating for countries dependent on imported food. The world's Least Developed Countries, which had exported more than they imported in the early 1980s, saw their food import bills skyrocket to more than $25 billion, driving their collective agricultural trade deficit to more than $19 billion. (See my earlier report.)

Mexico's agricultural imports topped $20 billion following the price spikes, with its agricultural trade deficit jumping to more than $4 billion. Corn imports accounted for more than half the bill.

And most telling: twenty years into NAFTA, 55 million Mexicans — about half the population — are estimated to be in poverty, many without secure access to food.

The night before my talk in Aguascalientes, in which I would gently call attention to the high cost of Mexico's failed cheap-food experiment under NAFTA, I ended up at a lush cocktail reception talking to the US Embassy's agricultural attaché. I must have said something about Mexico's agricultural trade deficit, and he immediately took offense.

"This year," he proclaimed, "Mexico may actually run a surplus."

I knew better; I'd seen this statistical sleight-of-hand many times.

"Do you mean the 'agri-food' trade balance?" I asked.

He nodded.

"The one that has beer as one of Mexico's biggest agricultural exports?"

He nodded again, and not sheepishly. Beer has undoubtedly been a NAFTA success story for Mexico.

"Beer is a product of agriculture," he said, with conviction.

I took a sip of my margarita.

“Don’t you think including beer distorts how Mexican agriculture is really doing under NAFTA?” I asked.

Not at all, he replied, the beer sector is a perfect example of the kind of integration NAFTA can achieve.

“Look, Mexico’s even importing the barley malt from us to make its beer!” I said.

I took another sip.

“So Mexico’s agricultural contribution to its beer exports is … what?” I asked.

Nervous laughter.

Here is a case where NAFTA has gotten the United States to open its market to something of value that Mexico can export, and Mexico can’t even capture the value from it. The industry’s growth benefits US barley growers and US malt makers. Mexico can’t even import the barley and make the malt themselves.

So the country is basically a *maquiladora* for beer bottling. I guess Mexico contributes the water. Which it doesn’t have enough of.

This has been Mexico under NAFTA in a nutshell. Giving away everything of value, then deluding yourself that your farm sector is doing fine because your Corona beer, bottled from US ingredients, is a big hit in the States.

Meanwhile, hungry corn farmers wait for their government to invest in producing more of its own food.

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