

Reflections on North American Integration **and Desintegrataion** in Agriculture

Comments, questions, evidence, and even a couple of suggestions

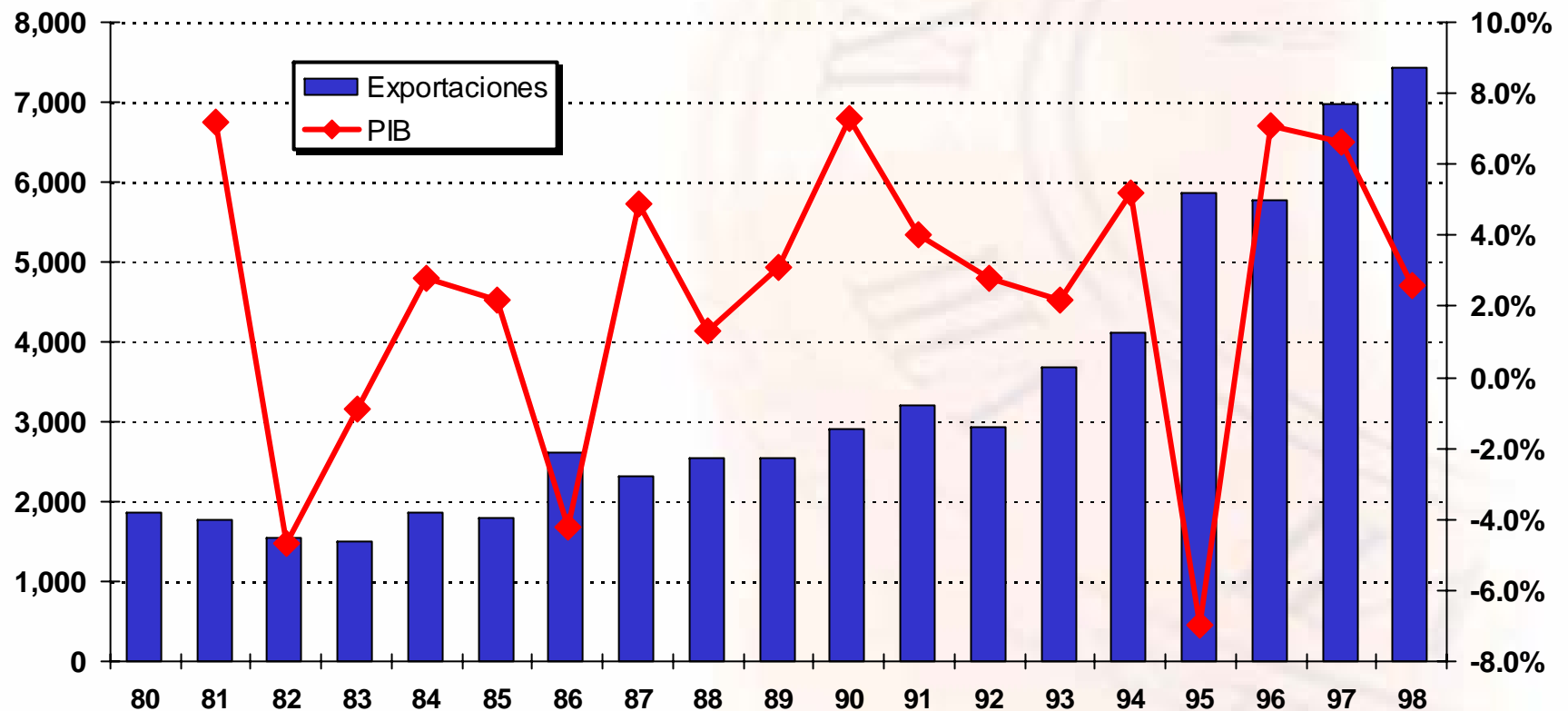


Factores contributing to integration

- *Geography and culture*
 - *There has also been a merging of tastes impacting on food markets*
- *Advances in logistics*
 - *This also has to be seen as working against integration*
- *Macroeconomic factors*
 - *Impacts on trade, but does it impact on integration?*



Over time, however, it appears that the trade agreements rather than changes in GDP have impacted more on Mexico's ability to grow exports

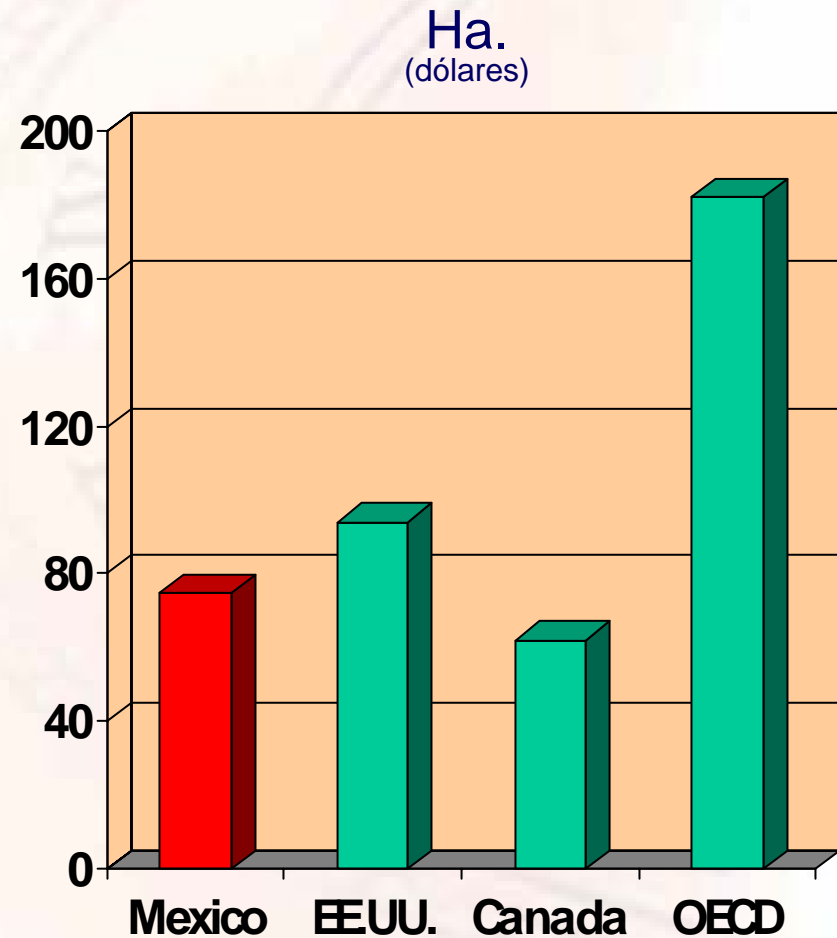
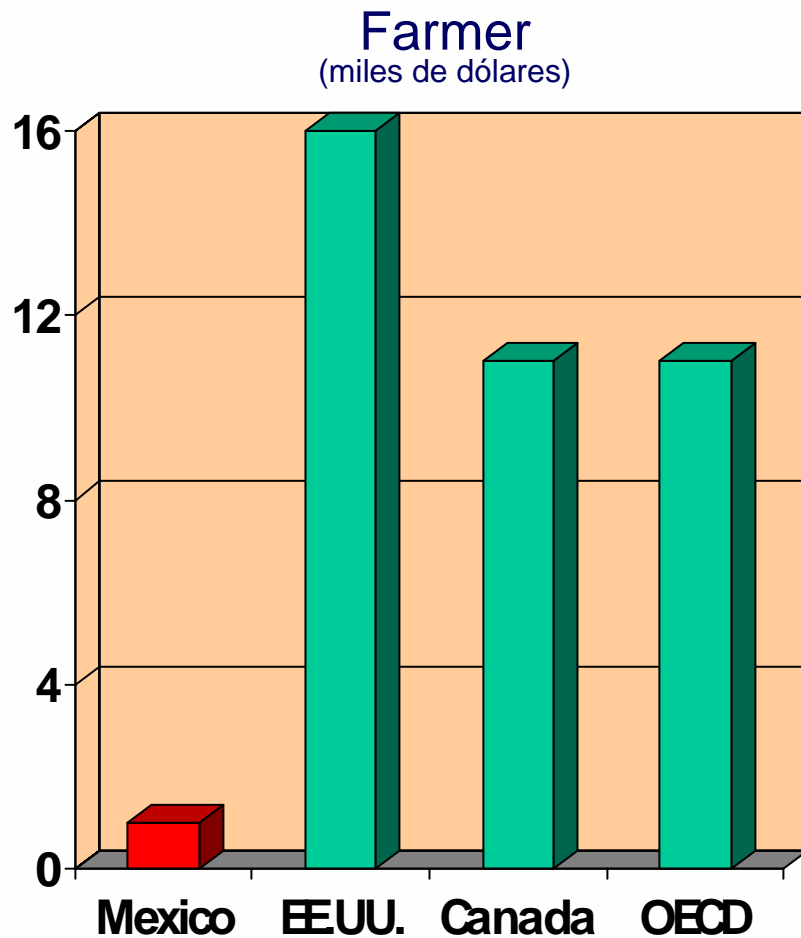


Factores contributing to integration

- *Domestic policy changes*
 - *Mechanism in Mexico is that these have resulted in structural changes that have facilitated integration*
 - *Of course policy changes could promote desintegration*
 - *Policies not moving in tandem – crowding out and trade disputes*



PSE in México and its trading partners



Fuente: Evaluación del TLCAN: cálculos basados en OECD data



Factores contributing to integration

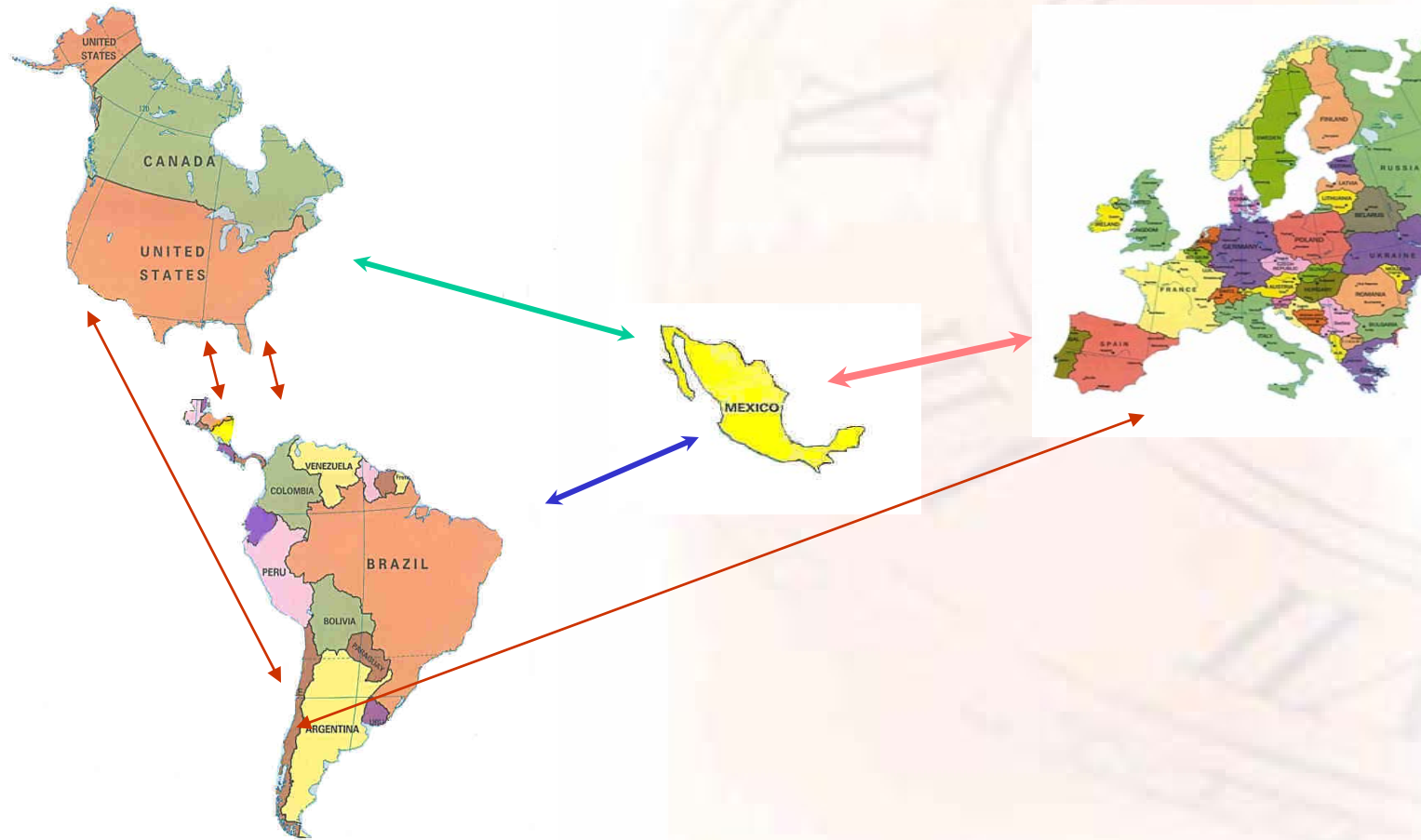
- *Regional Trade Agreements*
 - *An element of desintegration*



Mexico's view of trade agreements



But now it looks like we are being left out in the cold



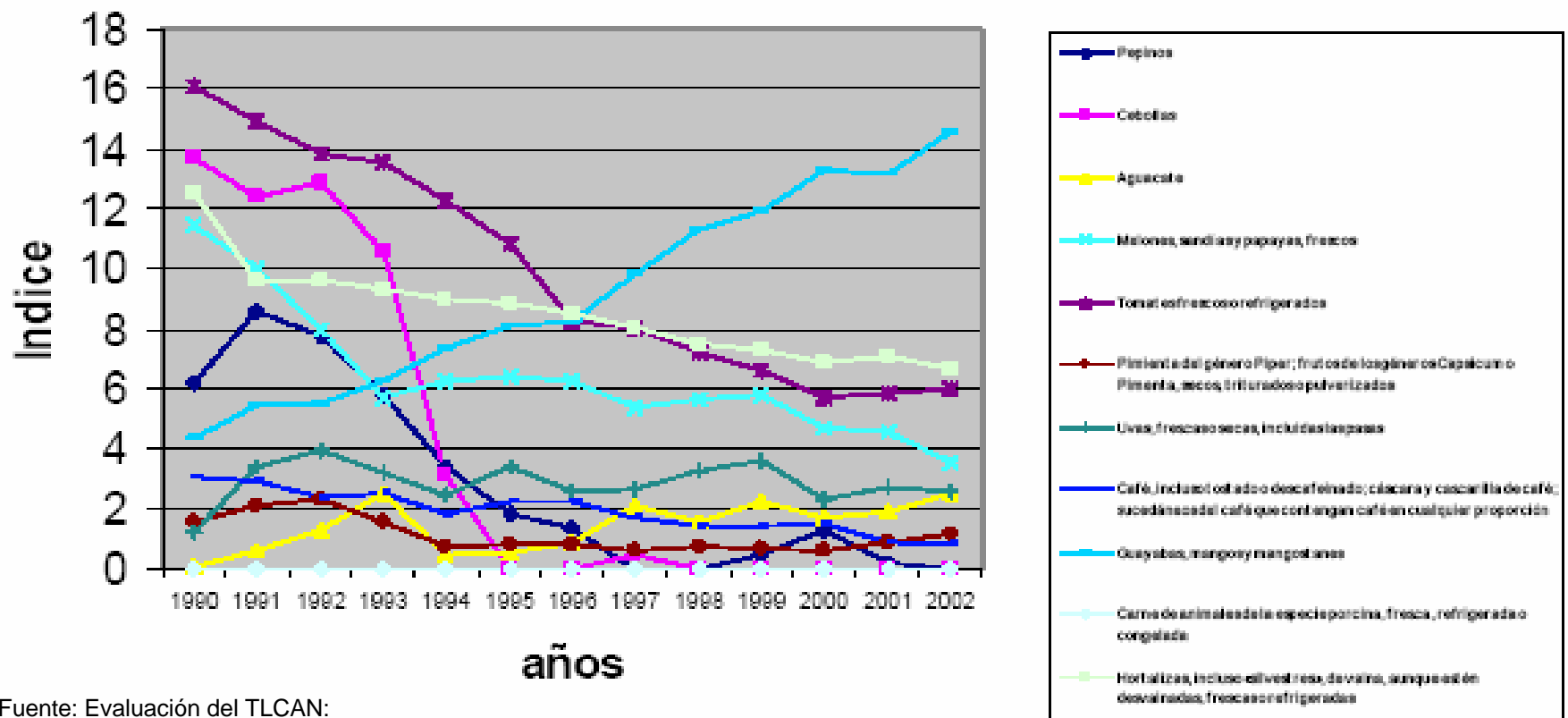
Indicators of market integration

- *Bilateral trade-intensity*
 - *Mexican agriculture appears to be losing out to other players in the U.S. market*



Index of specialization: Mexico to the U.S.

Indice de Especialización (Exportaciones a EUA)



Fuente: Evaluación del TLCAN:



Indicators of market integration

- *Price studies*
 - *Do you expect convergence but doesn't co-movement suggest evidence of market integration convergence?*
 - *Price complementarities*



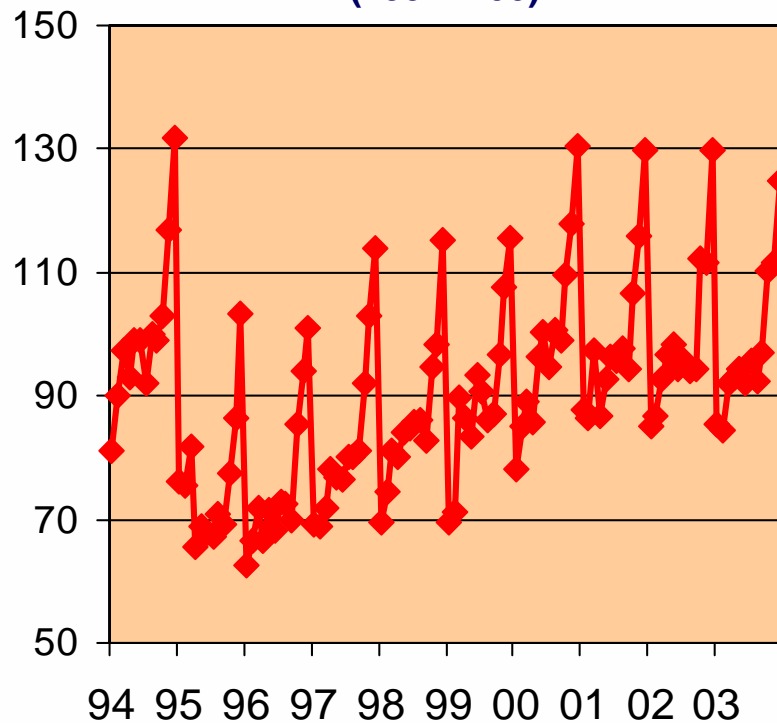
Foreign Direct Investment and Multinationals

- *Motivation for FDI*
 - *This rather than the magnitude defines integration*
 - *Price complementarities*
- *Preference for ownership*
 - *Influenced by policy*

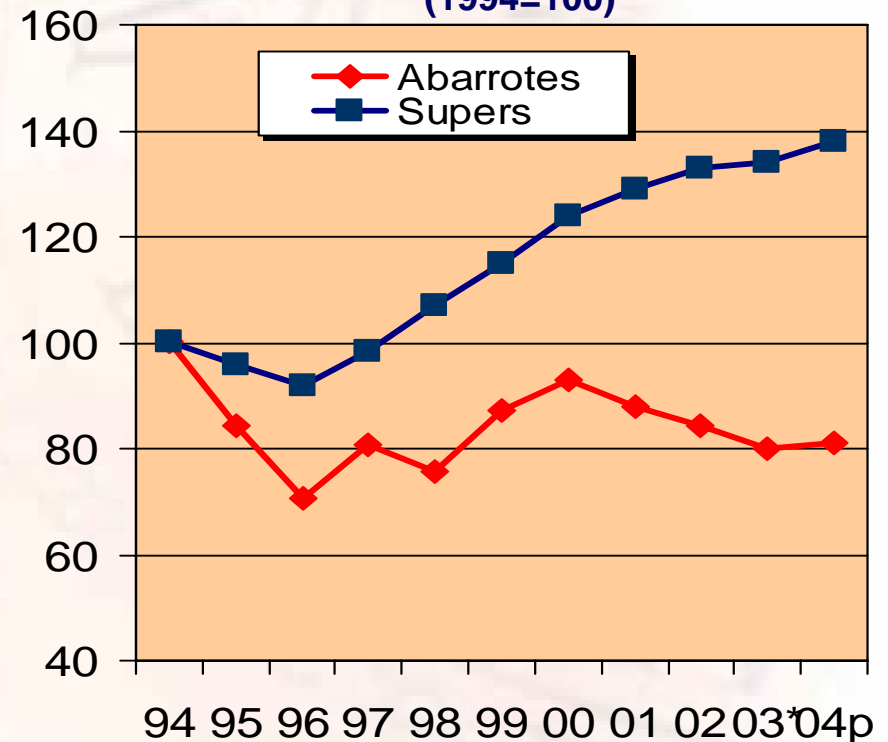


Is it the growth of the supermarket sector or the “close” relationship that explains growth of fruit and vegetable imports into Mexico?

Indice de Compras Reales del Consumidor (1994=100)



Indice de Compras Reales en Tiendas de Abarrotes y Supers (1994=100)

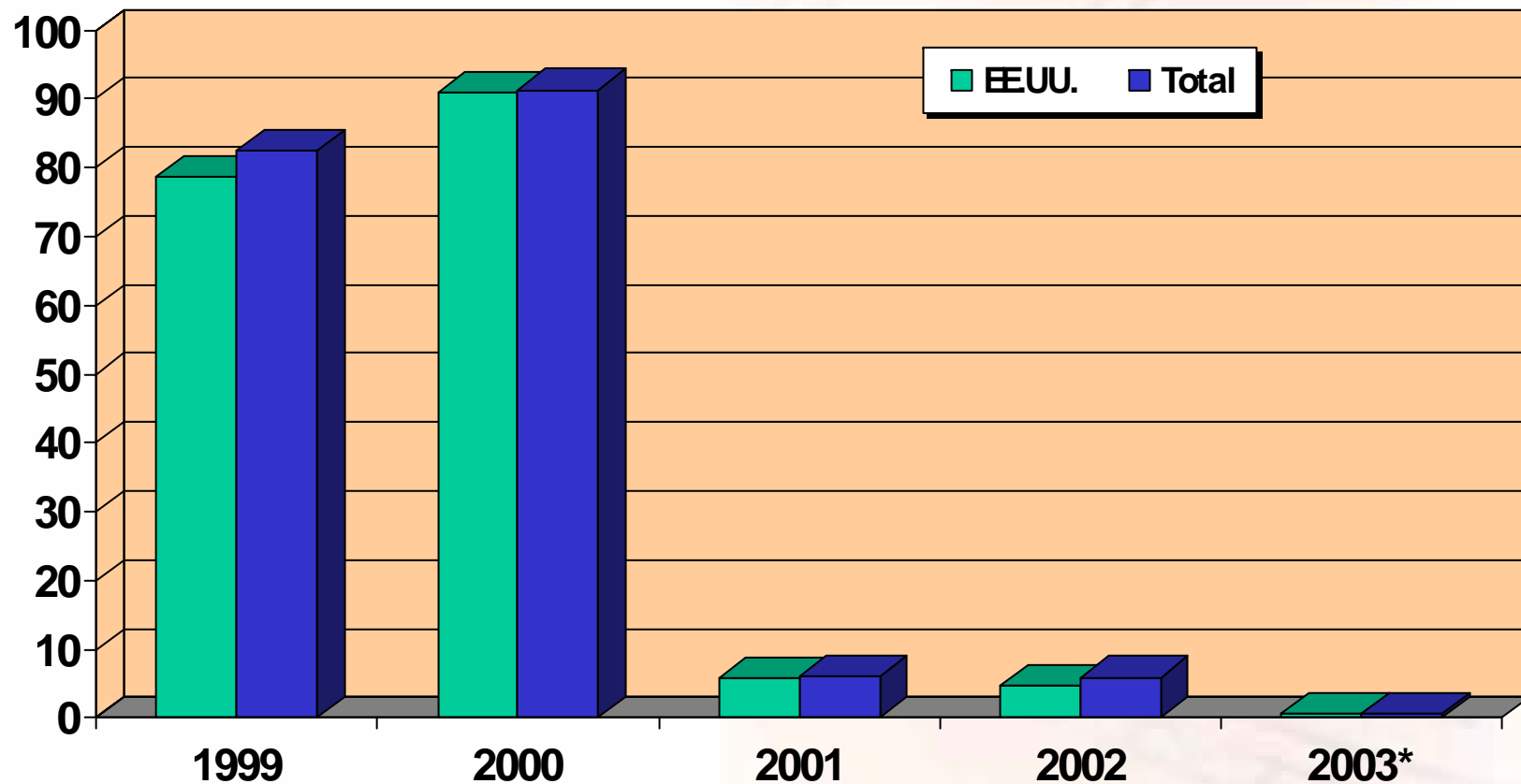


Fuente: INEGI, indice de compras reales



U.S. direct foreign investment in Mexican agriculture

('000 dollars)

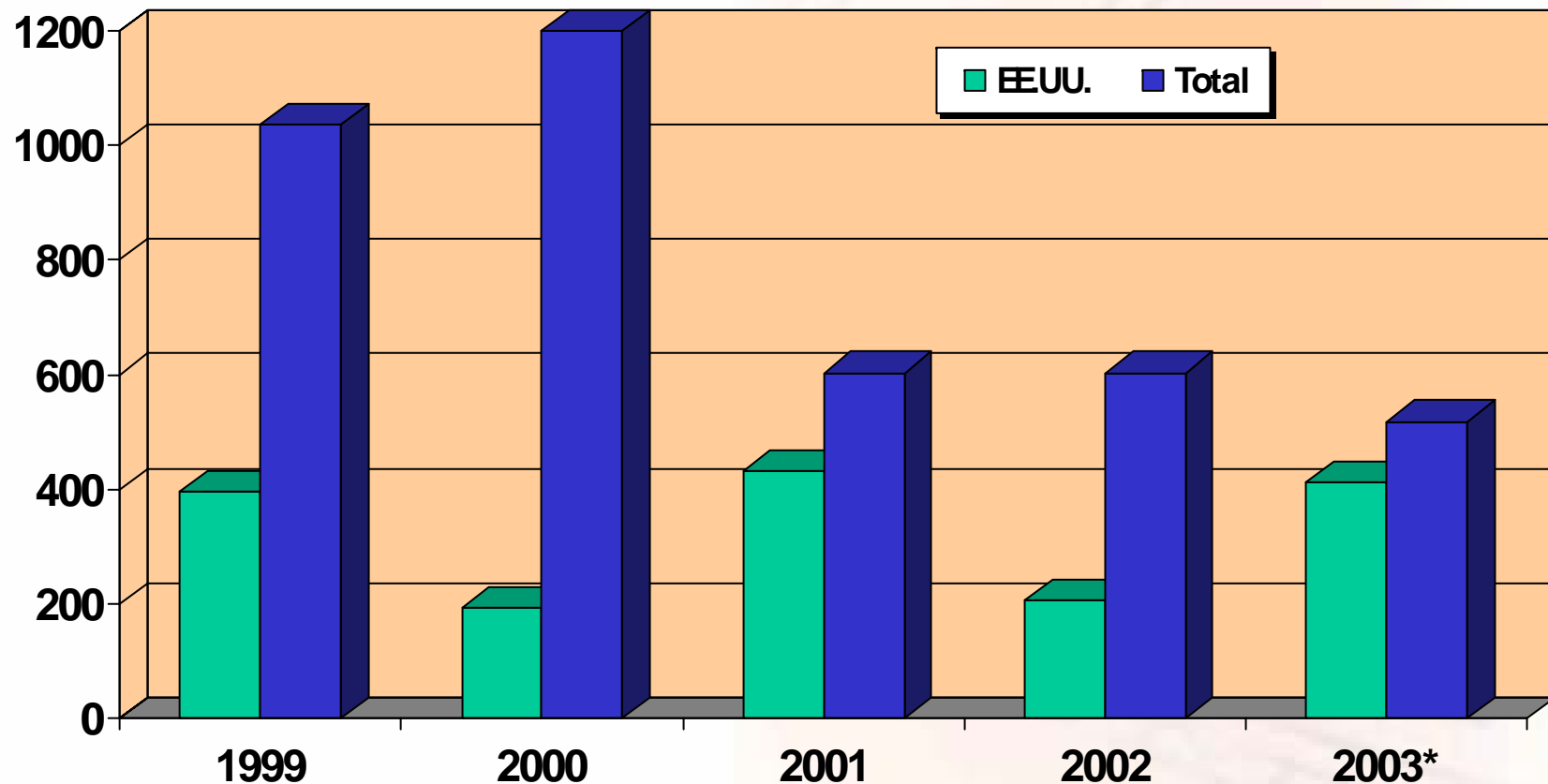


* Hasta Sept. 2003
Fuente: SE



U.S. direct foreign investment in food in Mexico

('000 dollars)



* Hasta Sept. 2003
Fuente: SE



Foreign Direct Investment and Multinationals

- *“Quite a few Mexican food companies have histories...”*
 - *Perception that there is little Mexican investment in the U.S.*
 - *Do you need significant FDI both ways for effective integration?*



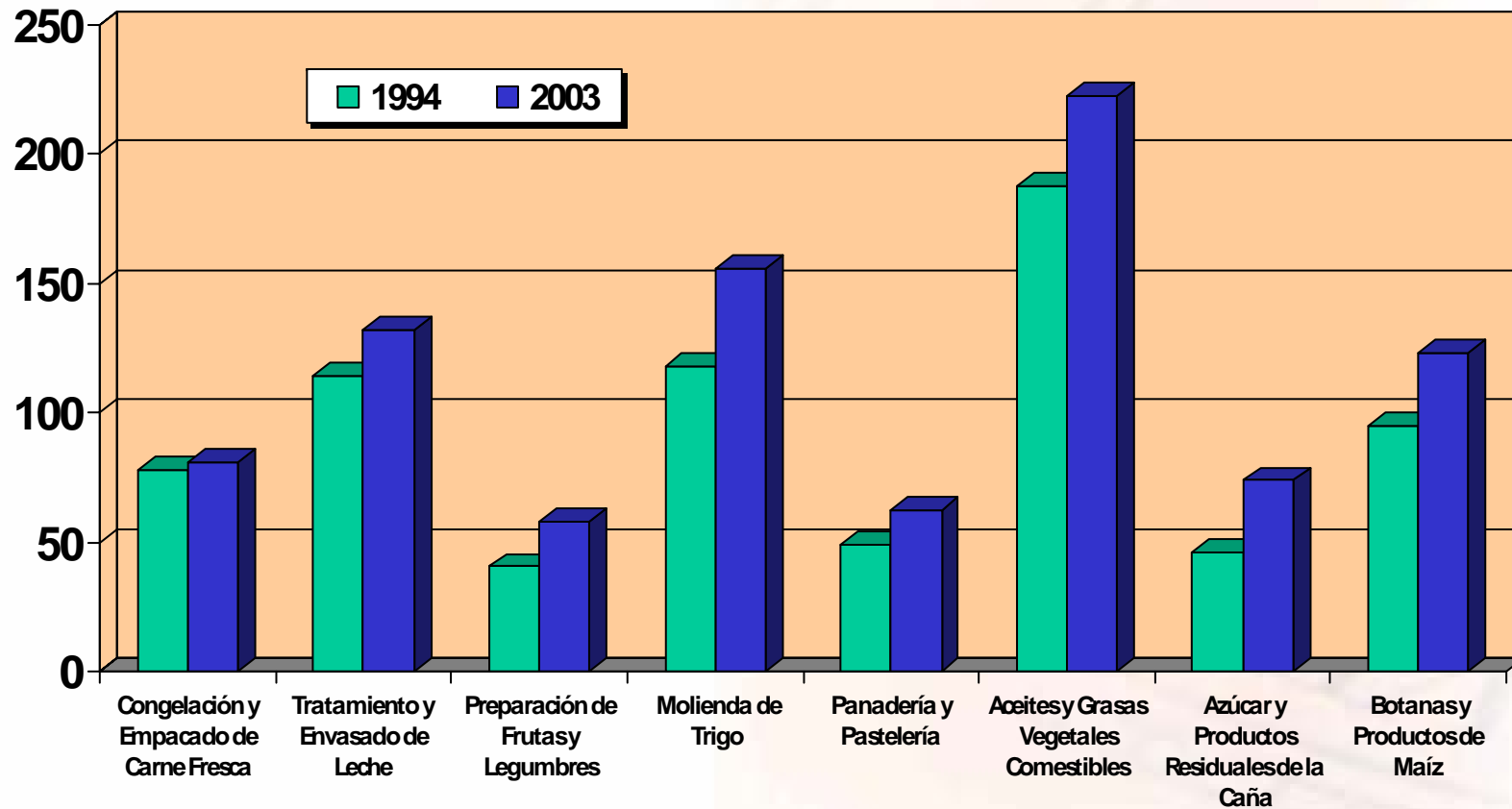
Performance

- *Benefits and costs*
 - *Appropriate domestic policy*
 - *but what about common policies?*
 - *Productivity*



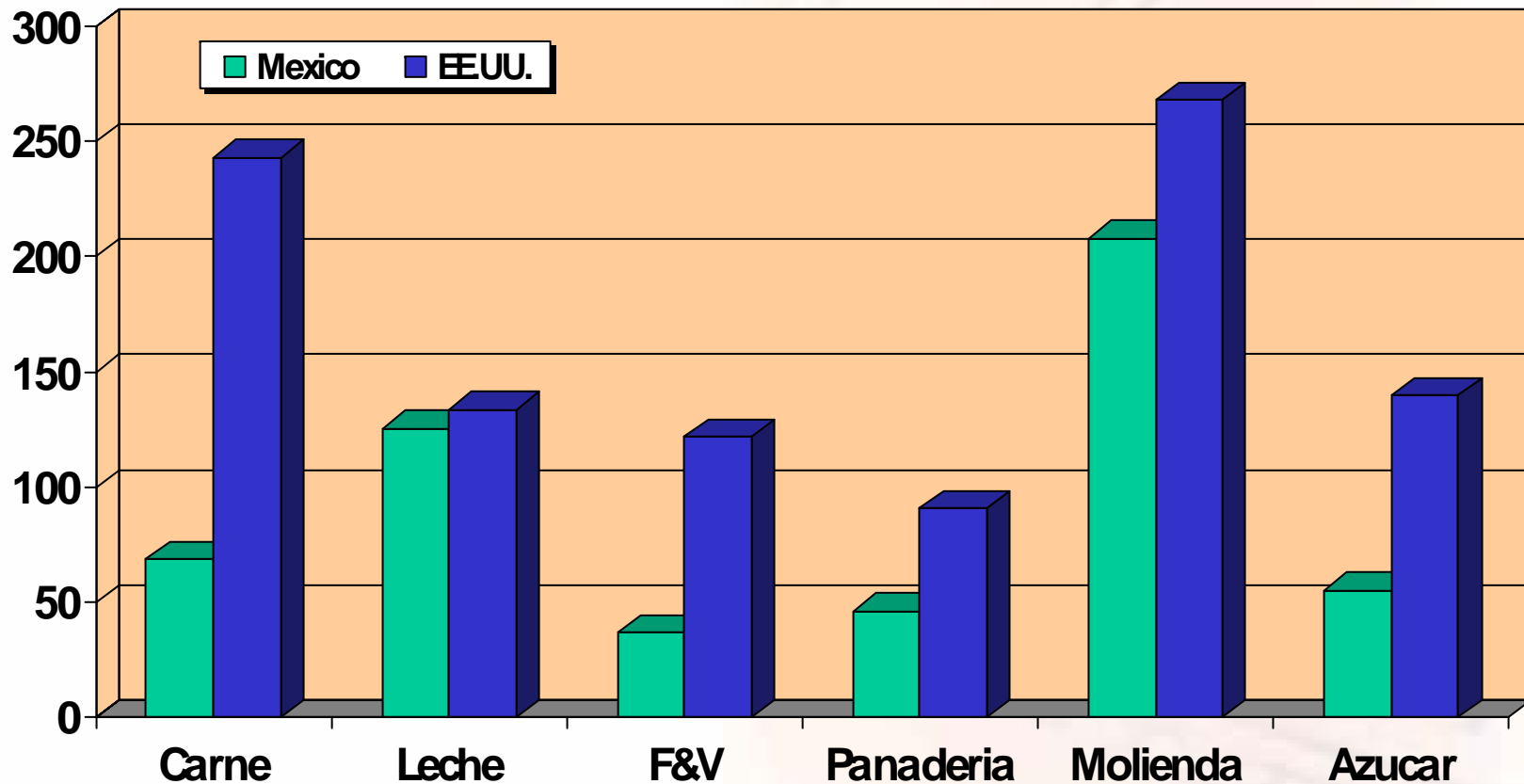
Labor productivity in the food industry

(thousand of dollars value added per worker)

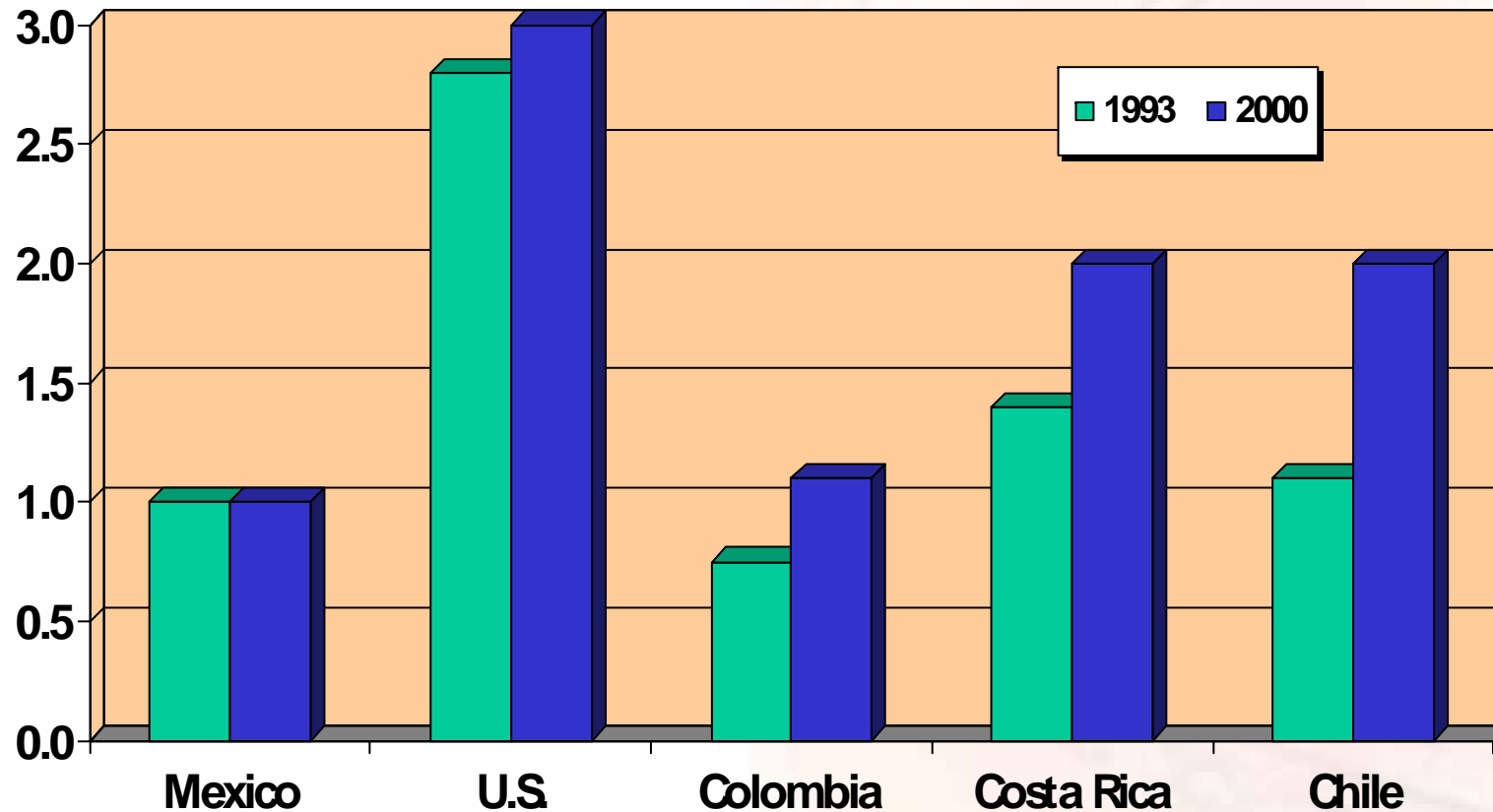


Labor productivity in the Mexico and the U.S.

(thousand of dollars value added per worker in 1997)



Overall Mexico has lost competitiveness in the agriculture since opening the economy*



* Valor agregado agrícola per capita como proporción del valor agregado agrícola per capita mexicano

Fuente: Evaluación del TLCAN: Banco Mundial



Performance

- *Employment and Labor productivity*
 - *Not only problem of overall job creation but also of low skill levels of rural dwellers*
 - *Labor mobility – important for integration*
- *Total factor productivity*
 - *“Cross border intrafirm trade in knowledge-related intangibles...to the affiliate’s host country.”*
 - *leads to power and concentration in favor of MNE*



Opportunities for further integration

- *Remaining tariff barriers*
 - *“Mexico did not allow the entry of any US high-fructose ...”*
- *Harmonize what and with whom?*
 - *Deserves to be discussed by policy makers*



Conclusion: Some additional measures

- *Two way FDI*
 - *Sector investment share*
- *Percent of agriculture land in foreign hands*
- *Two way labor movement*
- *% of intermediate goods imports/exports*



Conclusion: Towards a definition of “integration”

- *Goes beyond just more trade*
- *Factors of production – macro adjustment variables*
 - *Capital*
 - *Labor*
- *Commonality of trends and impacts*
- *Business decisions seen as one market, separate niches not separated by “artificial” policy barriers*
 - *Similar strategies*
 - *Similar promotion*
 - *Common pricing strategy*
 - *Reporting responsibilities*
 - *Logistic interrelationships*

