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Drought has Profound Negative Impact on Mexican Agriculture Sector this Year

by LADB Staff

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The Mexican agricultural sector which has long suffered from a lack of credit, obsolete equipment, and a huge disparity between wealthy and poor producers is facing additional hardships this year because of an extended drought caused by El Nino weather phenomenon. Some experts say this is the worst drought in Mexico since 1928. Rainfall returned to some southern and central areas in May, but the moisture was insufficient to reverse the damage caused by the lack of rain since late 1997.

A preliminary estimate from the Servicio Meteorologico Nacional (SMN) projects drought-caused damages will total US\$1 billion for the economies of Mexico and Central America. While the full extent of the damage is not yet clear, the most severe damage appears to be to pastures and grain crops. El Nino delayed the rainy season, which left many pastures dry and prevented farmers from planting crops in a timely manner.

Corn imports to reach 4.4 million metric tons

Because of the extreme dry conditions, corn production for the year is estimated at only 12 million to 13 million MT instead of the 16 million MT originally anticipated. An economic analysis published in early August by Banamex said the production shortfall is expected to push imports to about 4.4 million MT this year, more than twice the amount forecast earlier by the government. Much of this corn will be imported tariff-free from the US and Canada, as provided by the North American Free Trade Agreement (NAFTA).

In late July, Agriculture Secretary Romarico Arroyo Marroquin said the drought will also force Mexico to increase grain imports by 12% and oilseeds by 17%. In addition, the weather had a major impact on livestock producers, who were forced to bring cattle to slaughter early because of dry pastures and a shortage of feed. Cattle ranchers in the major livestock states of Coahuila, Chihuahua, Tamaulipas, Zacatecas, and San Luis Potosi estimate that 1 million head of cattle died this year because of the drought. The Secretaria de Agricultura, Ganaderia y Desarrollo Rural (SAGAR) estimates almost 200,000 head of cattle were slaughtered earlier than normal during the first half of the year.

The increased slaughter kept beef prices low for some time, but meat inventories have tightened, which could force Mexico to import as much as 960,000 MT of beef this year. Much of the beef is expected to come from the US, which lost some sales to Japan and other countries in the Pacific Rim because of the Asian financial crisis.

The drought has also had a major direct and indirect effect on coffee production. Alfredo Moises Ceja, president of the Confederacion Mexicana de Productores del Cafe (CMPC), estimates a decline

of 10% to 12% in coffee production because of the dry conditions during the growing season. A secondary factor, said Ceja, was forest fires in southern Mexico, which not only destroyed forests and grasslands, but damaged coffee plantations.

Government urged to consider social impact of drought

In an interview with the Mexico City daily newspaper *The News*, agricultural economist Ken Shwedel urged President Ernesto Zedillo's administration to consider the social, and not just the economic, impact of the drought. For example, said Shwedel, a 5% decline in the agricultural sector could translate to only a 0.3% decline in Mexico's overall GDP for this year. "You can live with this from a macroeconomic point of view, but the local communities will be hit," Shwedel said. He added that the drought has had a widespread impact on the agricultural sector, but the greatest impact will be on producers who cultivate one to three hectares of land. "They won't have the food or income they need, so will they come into cities or cross borders looking for work?"

The drought exacerbated other agricultural problems, particularly the lack of credit. In late May, the debtors- rights organization *El Barzon* asked the Zedillo administration to declare a state of emergency for the agricultural sector, which is "about to collapse" because of the effect of the drought and the continuing lack of access to commercial credit.

In late July, the Consejo Nacional Agropecuario (CNA) and the Confederacion Nacional de Proprietarios Rural (CNPR) issued similar pleas, asking Zedillo to adopt more direct policies to assist the agricultural sector in the medium and long term. In particular, said the CNA, the federal government should ensure that small-scale farmers receive greater access to credit from commercial institutions and government agencies.

Cesar Molina, president of the CNA's chapter in Jalisco state, said only 4% of the loans provided by commercial banks between 1991 and 1997 went to the agricultural sector. In fact, said Molina, commercial loans dropped off sharply between 1995 and 1998. Most banking transactions during this period have involved the recovery of overdue debt. In the face of lingering problems, some legislators have urged Zedillo's administration to renegotiate the agricultural sections of the North American Free Trade Agreement (NAFTA).

Deputy Joaquin Montano Yamuni, chair of the livestock committee (Comision de Ganaderia) in the Chamber of Deputies, wants the government to ensure more equitable treatment for Mexican agriculture. Montano Yamuni, a member of the center-right Partido Accion Nacional (PAN), said NAFTA has had a negative impact on Mexico's agricultural trade balance with the US and Canada. He said Mexico's agricultural trade deficit with the two NAFTA partners has been wider each year between 1994 and 1996 than during 1993.

Similarly, Deputy Porfirio Munoz Ledo of the center-left Partido de la Revolucion Democratica (PRD) also urged the Zedillo administration to seek changes in the NAFTA agricultural sections. Munoz Ledo, the legislative leader in the Chamber of Deputies, said a vast majority of Mexican agricultural producers have yet to see any direct benefit from NAFTA. (Sources: *The News*, 05/21/98; *El Financiero International*, 07/06/98, 07/20/98; *La Jornada*, 06/01/98, 07/22/98; *Novedades*, 07/22/98,

07/30/98; Excelsior, 05/28/98, 05/29/98, 07/27/98; El Economista, 07/31/98; El Universal, 06/01/98,
07/22/98, 07/30/98, 08/05/98)

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