

TRENDS AND OPPORTUNITIES

Economic crisis and drought have left the Mexican agriculture sector in a state of disarray. But there are still opportunities for niche products provided that suppliers can provide both financing and service.

THE ECONOMIC CRISIS

Mexico entered 1995 in a climate of serious economic crisis. The peso was sharply devaluated during the last week of 1994, and by mid-January it stood at roughly half of its former value relative to the US dollar. As a result, imports were sharply cut and Mexico registered its first agricultural trade surplus since 1987.

Unfortunately, most of the agriculture sector was not able to increase production sufficiently to take advantage of the export boom fueled by the cheap peso. Exports of fresh fruits and vegetables increased by 40 percent and 46 percent respectively. Coffee exports doubled. But more than 80 percent of the cultivated area is planted in grains and oilseeds, which, in general, are not internationally competitive. Overall, agricultural GDP fell by 15 percent during 1995, compared with 10 percent for the overall economy. Mexico is expected to register a small deficit in agricultural trade in 1996.

Prior to the devaluation, livestock producers and farmers were eager to purchase state-of-the-art equipment, and went into dollar-dominated debt to do so. The devaluation increased the debt burden (in pesos) and drove interest rates to prohibitive levels. This forced many producers and farmers out of the market or at the least severely limited their purchasing power. The *Consejo Directivo*, steering committee of the *Confederación Nacional Ganadera (CNG)*, National Cattle Ranchers Association, estimates that about one-fifth of all livestock producers went bankrupt or were bought out by larger concerns.

Despite the financial constraints caused by the crisis, producers and farmers are aware of their need to update and become more competitive. It is well understood that modernization is a prerequisite for participation in the booming export market.

The crisis has made access to credit vital to survival. Distributors or producers of machinery who can offer long-term credit will enjoy a substantial competitive advantage. Several tractor producers are participating in the *Programa de Apoyos Directos al Campo (Procampo)* financing scheme.