Impacts of Agricultural Trade Liberalisation on Households: The Case of Mexico

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1 Introduction

1.1 Problem Statement

The current economic development in Mexico raises questions of growing concern among Mexican policy makers regarding the effects of agricultural trade policies on income and the distribution of welfare. It is important to analyse how upcoming agricultural trade agreements and national policies will affect households in Mexico. The effects of agricultural trade liberalisation on Mexican households are important, particularly when considering that in Mexico a third of households depend mostly upon the agricultural sector (INEGI, 2005a). This dependency is manifold and difficult to identify for agricultural wage earners, self consumers, net consumers and net producers. Households engaged in agricultural activities and self-consumption are not influenced directly by fluctuations in commodity market prices as households with different income sources are (RUBIO and SOLOAGA, 2004). However, for low-income households who do not produce but consume agricultural products, the price changes severely affect their budget expenditures (RUBIO and SOLOAGA, 2004). Households consuming and supplying in local markets represent a third case. Accordingly, the effects of fluctuations are variable and depend on other household characteristics. Some of these preferences will be investigated in household demand analysis.

Thus, the importance of identifying the impact of agricultural trade liberalisation on different household types is a critical issue, which must be accounted for in the design of trade policies, either to implement preventive measures within trade agreements such as the setting of sensitive products or to implement national strategies to support disadvantaged households.

It is also of particular interest to investigate to what extent agricultural trade liberalisation will promote or hinder the alleviation of poverty at the household level. Since nearly one third of the Mexican population is considered to be extremely poor, this question is especially important in Mexico (COMITÉ TÉCNICO PARA LA MEDICIÓN DE LA POBREZA, 2005). No upcoming economic policy should ignore the effects on this segment of the population in the final trade negotiations. Furthermore, there is a need for approaches that reliably forecast the effects of trade liberalisation on household expenditure patterns.

The study of the effects of trade liberalisation on different household types has not yet been completely explored. Research is either focused on the effects of trade liberalisation on macroeconomic factors or on the effects of domestic macroeconomic changes on different household types. However, research on the related effects of trade liberalisation on household expenditures and income levels is rather scarce. A key reason for this is the lack of