Dominant and Minority Paths to Integration and Upgrading: NAFTA, Mexico & Food Safety Regulation

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Overview

• Benefits of Trade depends the Integration Regime & Domestic Institutional Upgrading
• We compare TIRs: Mexico/NAFTA vs. EU Accession for Post-Communist countries
• Beyond Conditionality – NAFTA via the US has conditionality, enforcement, and meritocracy for Mex firms to gain access.
• Dominant Path – New Laws, Initial Mobilization, Weak Implementation in Public and Pvt Domains
• Minority Path: US Ad Hoc Intervention, Shift Toward Capacity Building & Problem Solving; but limited Mexican actors.
leveling the playing field

Transnational Regulatory Integration and Development

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Regulation, Standards and Upgrading

• We know that Trade creates incentives and channels for diffusion of new standards to local firms.

• Locke, Piore, Schrank:
  – Link between certain production practices and quality work conditions.
  – Regulation can help, when Inspectors become Professors not just Police.

• But Private Regulation alone can’t expand benefits. “Winner takes all.”

• For whom do we want to “Level the Playing Field”? 
NAFTA and Mexico

• Three Integration Modes
  – Emphasis on Rules instead of Institutional Capacity
  – Emphasis on Dyadic, inter-govt relations instead of multiplex ties (assistance and monitoring)
  – Emphasis on check list compliance, not joint problem solving, for criteria/evaluation

• Economic incentives are strongest drivers. Institutional change comes from firms adapting on own or pressuring govt to build new institutions.
NAFTA & Mexico

• Rule based – WTO norms, non-discriminatory
• Dyadic – SPS Cmttee – meets once per year, suspends several key subcommittees
  – 1999 - NAFTA creates non-profit, DRC for firms in F&V sector; as of 2009 of the 1300 members, only 23 are Mexican
  – After series of outbreaks, increasing bi-lateral coordination b/n USDA/FDA and Senasica
• Check-list compliance – USDA monitors products; upon outbreaks, notes Mex deficiencies.
Path 1 in Mexican Food Safety

- Fresh Produce – 4.5 million producers; mostly small
  - FAO – only 9% in supply chains; 60% in poverty (2011)
- Mexican food exports grow a lot to US. US accounts for about 85% of Mex exports of fruits and vegetables, 65% of Mex exports of meat products;
  - Mex top supermarkets – 95% supplied by large firms.
- MNCs are main source of training, resources, knowledge to Mexican suppliers.
- 1997 – New US law on imports of food products; more restrictive; strong enforcement. US creates GAPs and GMPs guidelines.
- 2000-2002 – Mexico reforms FS laws and programs – PSIA part of Alianza para el Campo
Path 1 contd

• Outbreaks – melon, green onions, tomatoes, strawberries, etc.

• No use of NAFTA; threaten WTO arbitration.

• Mexico responds:
  – Ad-hoc assistance from FDA and USDA on traceback, new certification systems (training seminars; 2001-09 - $750K from USA in programs to Mex.)
  – Increased investment into FS monitoring, assistance and certification programs
Path 1 – Mexico Reacts

• FAO – weak implementation, domestic regulation; some losses for Mexican exporters
• Fed govt increases budget for FS, which is oriented to penetrate US markets; not building broad based domestic system.
  – But states and firms must pay increasing share

• Decentralized system – depends on local councils, run by states and producers; Senasica does not have own field offices.
  – Limited mid-term planning, goals, standards;
  – NO regional coordination
  – Senasica – declining resources to monitor and enforce
  – OAS open to large conflicts of interest
  – Limited follow up on campaigns
  – Large differences between states; poor attention to SMEs
  – COFEPRIS weak/underfunded/understaffed
Path 1 – Mexican Producers

• Narrowing of $$ and participants
  – Melon exporters drop from about 60 to 13
  – By 2008 – only about 240 firms “reconocidos” in GAPs and GMPs; few are “vigente”
  – Large costs of compliance to producers; few aware of standards or govt programs.
  – Ass’ns are emerging – but cases of capture by large firms; studies show ass’ns key to collective support and learning, but few do so, few members.
  – But even with COEMEL, no melon exporters in Colima – in 2005 only 48 producers total
Path 2 – Mexico-US

• Shift in a few sectors to focus on capacity, joint problem solving, some multiplexity
  • BUT generally limited to a few players;

• Cases of US assistance to Senasica – plans for new systems, certification of exporters
  – FDA – in melons & green onions, Senasica takes over certification and inspections;
  – APHIS – in Mangos, Citrus, Avocados, Papaya, APHIS has office/employs inspectors directly
  – FSIS – in meat – regular direct inspections, small staff, passes on recommendations for equivalence

• US actors “frustrated with continued outbreaks”; strong standards, weak implementation, facilities, capacities, personnel turnover.
Pre-Clearance Programs
(meritocratic conditionality?)

• FSIS – closer to EU, equivalence, but only 30 firms certified, suspension for 6 mths in 2009; still big problems, no mechanism for problem-solving.

• APHIS – contracts with sectoral association; criteria for compliance to be certified to export to the US. (Before NAFTA)

• Evidence of firm, sector, state/local govt upgrading.
  – But 90 US employees in Mex; little formalization w/ SENASICA; limited number of firms.
  – Private Actors – OLD Corporatist Actors are New Gatekeepers
Path 2– Pilot Programs of US & Mex

- Both sides recognize limits to previous system
- Baja California: Producer Assn, State Govt, New Extension Center

- Previous interventions have evolved to attempts to create joint programs
  - Focus on capacity creation – testing, traceback, labs, training – Mex to build certification and compliance.
  - Still dyadic, but ... greater scope for FDA/USDA units to experiment with Mex agencies; increased inclusion of associations.
  - Focus on joint problem-solving – need common criteria, confidences in measures, controls, certification procedures etc.

- EG – 5yr plan on med-fly; expand melon certification program to other areas; FDA opens office in Mex City 2010; FDA, APHIS, FSIS expand int’l personnel.
## EU Accession vs NAFTA

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<thead>
<tr>
<th>Dimension</th>
<th>EU Accession</th>
<th>NAFTA</th>
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<tbody>
<tr>
<td>1. Scope &amp; Depth</td>
<td>Economic, Political, Institutional - Wide variety of policy domains</td>
<td>Focus on economic and trade policies, Environment &amp; Labor standards</td>
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<td>Focus on administrative capacity for pre &amp; post-accession compliance;</td>
<td>Focus on rule adoption; possible ex post sanctions; strong reliance on US regulators</td>
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<td>2. Assistance</td>
<td>Proactively decentralized and multiplex, resulting in extended public-private transnational networks.</td>
<td>Increasingly dyadic b/n govts; use of market and voluntary ties</td>
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<tr>
<td>• Transnational Structure</td>
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<td>• Feedback</td>
<td>Joint Problem Solving – external &amp; domestic actors seeking solutions</td>
<td>Check-list compliance – highlight problems, potential areas of assistance</td>
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<td>• Feedback</td>
<td>Integrated compliance and problem-solving; regular, exchange of information.</td>
<td>Check-list compliance to trigger contestation by state and non-state actors; annual centralized review; increase of bilateral negotiations.</td>
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Food Safety Regulation Example

EU vs. NAFTA

- Multiple EU Commissions
- Top Priority for Security and Trade.
- Standards for regulatory rules and institutions – govt & sector ass’ns
- Regular review and assistance; violators removed but upgraded.
- EU Harnesses non-gov’t actors to assist; build capacity of new non-state actors.
- Strong use of horizontal transnational ties (e.g., govt & Assn’s)
- Substantial improvements over past 7 years.

- Basic Int’l Standards
- Reliance on Domestic Actors (USDA/FDA)
- Market Based
  - MNC value chains
  - SMEs and regions lose
- Winners - Large Mex firms & old corporatist guard dominate resources and politics
- NAFTA lacks resources and support
- Standards – focal point for lobbying about trade barriers
- USDA & FDA intervening into Mex – both reinforcing old corporatist groups & triggering institutional changes
Conclusion

• Reliance on incentives had limited results; narrowing of field; continued outbreaks.
• Led Mex to pass laws but decentralize, not institutionalize. Some firms integrate internationally and adapt.
• Success coming where US is intervening, with increased focus on capacity and joint problem-solving.
• Not leading to revision of NAFTA. But sector specific.