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FREE TRADE & MARKET ACCESS

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Americas Quarterly: THE POLICY JOURNAL FOR OUR HEMISPHERE
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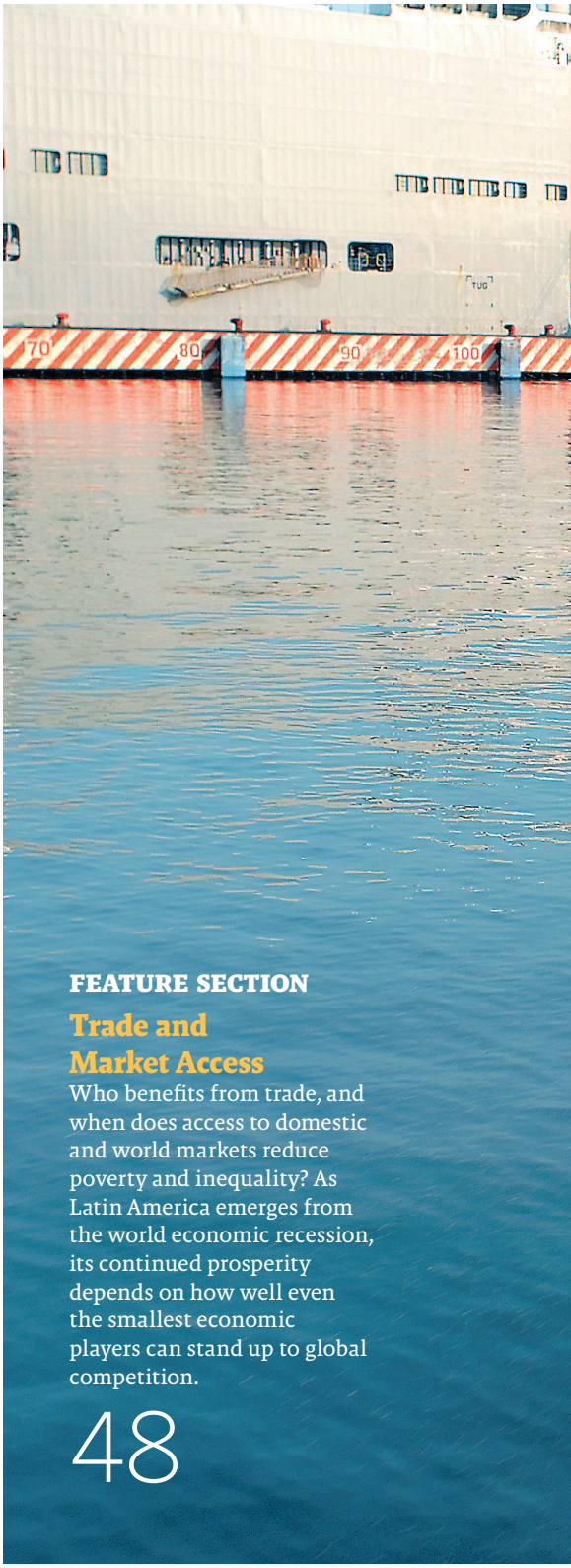

KEITH DANNEMILLER

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Trade and Market Access

Who benefits from trade, and when does access to domestic and world markets reduce poverty and inequality? As Latin America emerges from the world economic recession, its continued prosperity depends on how well even the smallest economic players can stand up to global competition.

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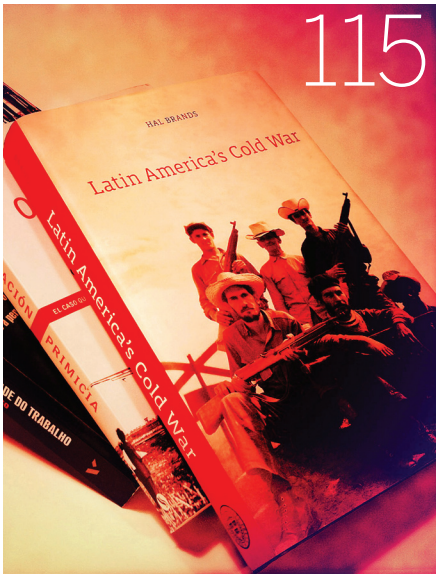
COVER BY SHANE HARRISON



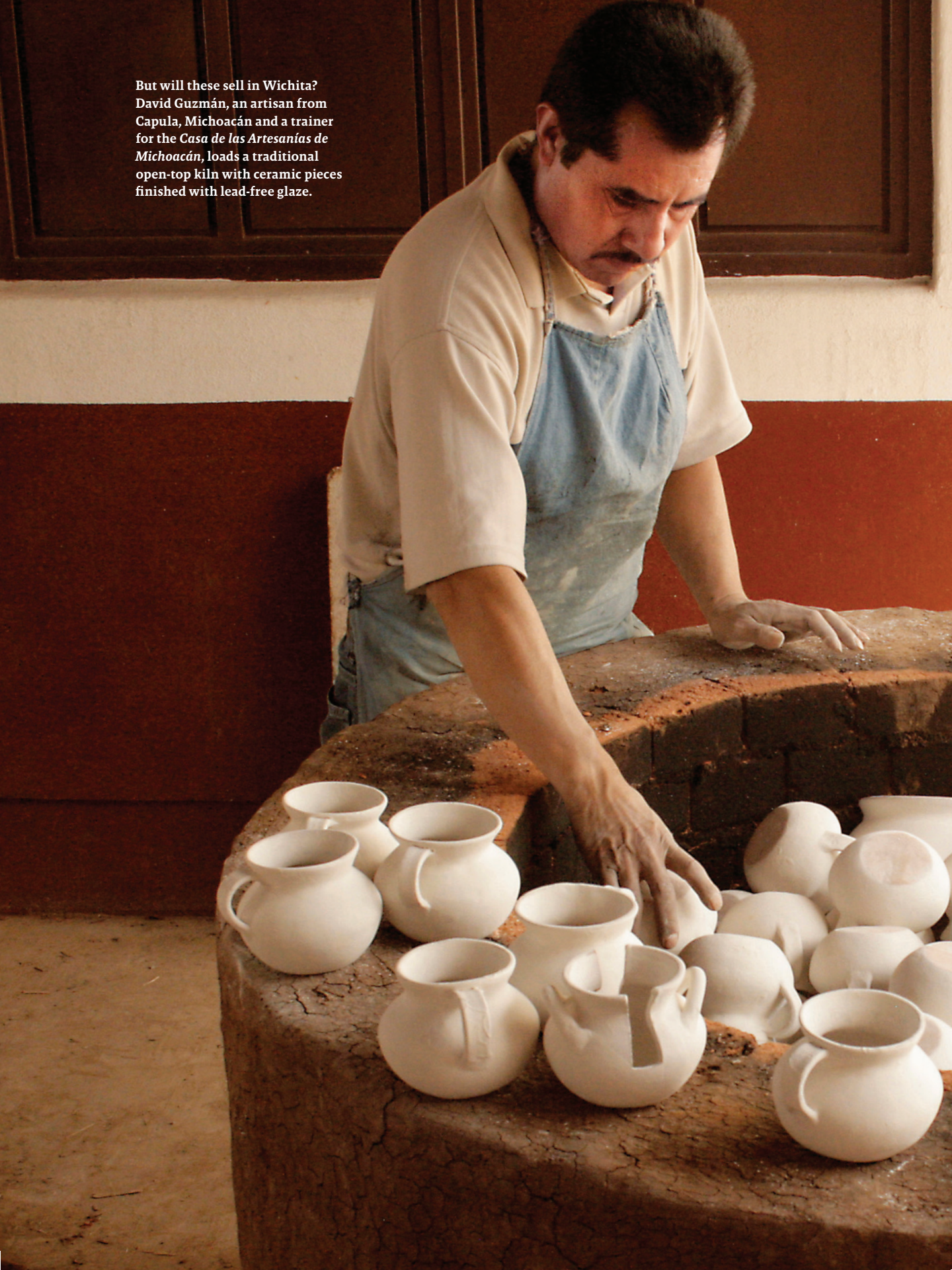
AQ UPFRONT

DEPARTMENTS

in our next issue:

What Happened to Hemispheric Unity? With U.S. influence in the region waning, Brazil emerging as a global player, and diverging economic trajectories (e.g., Chile, Venezuela), does it make sense to talk about the hemisphere as a unit any more? Robert Pastor, Matias Spektor and Joel Hirst join the discussion in the Spring issue of *Americas Quarterly*.

REUTERS, LARS KLOVE, BILL CLARK/ROLL CALL/GETTY



But will these sell in Wichita? David Guzmán, an artisan from Capula, Michoacán and a trainer for the *Casa de las Artesanías de Michoacán*, loads a traditional open-top kiln with ceramic pieces finished with lead-free glaze.

FROM TRADITION TO TRADE

As small and medium enterprises confront hurdles to compete globally, the state and civil society can help improve production and link them to markets. But it's never easy.

BY STEVEN SAMFORD

Uriel Arroyo is a ceramics producer from Capula, a small community in Michoacán, Mexico, whose family-run business used a centuries-old method to craft clay table- and cookware. Arroyo, like roughly 10,000 artisanal ceramacists across Mexico, used lead-oxide glaze to finish his pieces. Now, with the help of nongovernmental organizations (NGOs) and Mexican public agencies, Arroyo is weighing the difficult and career-changing decision to break from the traditional method of production and embrace a lead-free alternative glaze.

More than anything, Arroyo's choice hinges on his need for increased access to markets and higher profits for his small business. Local ceramicists had made a decent living off their trade for generations, but business seemed to dry up in the mid-1990s. The primary market force at work during this time was the 1994 North American Free Trade Agreement (NAFTA) that united the U.S., Canadian and Mexican economies. The trilateral agreement promised increased commercial opportunities for small- and medium-sized enterprises (SMEs) like Arroyo's, but NAFTA came with a catch.

Gaining access to American markets also meant complying with a 1991 Food and Drug Administration (FDA) ruling that regulated the permissible levels of soluble lead in cookware and tableware (currently between 0.5 and 3.0 micrograms/ml). Growing popular concern about lead levels in the environment translated into stricter standards in other developed-country markets too, such as Canada, the European Union, Australia, and Japan. Without the fi-

Uriel Arroyo (left) and David Guzmán discuss techniques for loading the kiln. Government efforts are key to helping producers adopt lead-free glaze.

nancial or technical capital to upgrade to lead-free glaze, Arroyo and other potters found themselves locked out of new export markets in developed countries.

The FDA ruling effectively created a nontariff trade barrier for Mexican exporters. At the same time, SMEs faced severe constraints in information about the need and requirements of new markets beyond their borders and the capital to meet those demands. The challenges illustrate the economic and technical hurdles that small producers in developing countries face when exposed to the global market. "We don't want a handout from the government," Arroyo says, while standing beside a large adobe kiln, his apron and hands smeared red-brown from wet clay. "We want to earn our own living, but we need assistance finding other markets and exporting."

Mexican public agencies and NGOs have responded with programs that provide tailored interventions, such as skills training and credit, that reduce the economic obstacles to the adoption of lead-free glaze. Assistance with strategies to market exports has also given entrepreneurs like Arroyo a chance to adapt their industry to changing markets and make their living. But governments and NGOs must make a greater effort to distribute information to ceramicists about the markets they seek to enter.

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NEW MARKETS, OLD TECHNOLOGIES

According to a recent estimate, one-third of Mexicans (some 30 million) prepare and eat food from table-service items produced in traditional family workshops. The figure, admittedly conservative, was much higher before the economic reforms of the late 1980s and early 1990s, which liberalized Mexico's trade policies and opened its market to foreign imports.

While the FDA ruling in 1994 closed lead-based ceramics producers off to U.S. markets, Mexican producers were also losing market share at home. By the early 2000s, nearly half of all ceramic goods sold in Mexico were imported, the majority from China. Less expensively produced, the lead-free Chinese products were sold at prices between 10 and 40 percent lower than the domestic variety. The crimp in the domestic market made the need to adapt for export all the more urgent.

Enter the *Fondo Nacional para el Fomento de las Artesanías* (Fonart). The Mexican agency, located within the federal Ministry of Social Development, undertook a sector-wide effort to facilitate an upgrade to lead-free, exportable glaze. The project was not a small one. Fonart developed a suitable lead-free, boron-based glaze in 1996 and initiated the lead eradication program in 1998. Along with a variety of state agencies and NGOs—most notably the *Casa de las Artesanías de Michoacán* and World Bank-funded NGO *Barro sin Plomo* (Ceramics without Lead)—Fonart began the task of promoting the safer, exportable glaze to local ceramics producers.

PHOTOGRAPHS BY STEVEN SAMFORD

Fonarts's support for the ceramics producers of Michoacán is suggestive of what scholars Andrew Schrank and Marcus Kurtz call "open economy industrial policy." In the new free-trade environment, government intervention is designed to help domestic producers become more competetive globally, rather than protect them behind trade barriers. These interventions frequently include efforts to help firms and sectors overcome market imperfections that are endemic to developing countries: lack of information about export markets, poorly developed credit markets, low levels of human capital, and limited research and development.

Although far short of a unified policy, there is much to be learned from the varied efforts of the Mexican government to help SMEs compete on the international level. A network of federal and state programs has been established in the last decade to assist small businesses in riding out market failures and improving their capacities to export.

Among the most noteworthy programs are *FONDO PyME*, established in 2000 to provide seed money, innovation, financing, and training for groups of firms; ProMéxico, which is specifically dedicated to deepening Mexico's involvement in the international economy, largely by promoting linkages between domestic and foreign businesses; and Cexporta, a state agency in Michoacán that provides assistance in improving competitiveness for small businesses, such as creating barcodes, helping design effective brands and publishing foreign legal requirements for labels.

At the heart of the effort to increase the use of lead-free production is the diffusion of technology and skills through guided training. In 2008, Fonart trained 3,425 heads of family in Michoacán through workshops in the use of lead-free glaze, and an additional 450 in 2009 alone. Training sessions allow producers to finish unglazed wares with lead-free glaze provided by the government agency, and then fire them in a variety of kilns. The program helps to alleviate the costs of experimenting and gives the producers the hands-on knowledge they need to implement the technological change in their own workshops, while demystifying what the change entails.

In addition to disseminating know-how, efforts have been made to overcome the cost barriers to upgrading. For example, *Casa de las Artesanías* has tried to address this issue both by subsidizing inputs, like the lead-free glaze itself, and by funding construction of more efficient, hotter burning closed kilns. Similar to Fonart, the agency provides free glaze and kiln fuel, lowering the costs of learning and experimentation. Since

DIANE MACDONALD/GETTY

Better Deal for Coffee Farmers

by Matthew Aho

Roughly half the world's coffee supply is grown by small-scale farmers whose only access to markets is a *coyote*—a term used in the coffee industry to describe a middleman with a truck, who picks up raw beans, pays cash and drives away. Since they produce only picked beans, most farmers are on the lowest possible rung of the value chain. They have little collective bargaining power and scarce access to accurate pricing information. They also lack access to formal credit markets or social safety nets and are fully exposed to the volatile price fluctuations of most agricultural commodity markets. The unsurprising consequence of this market exclusion is a perpetual cycle of poverty.

Cooperatives and producer associations like Peru's *Central Piurana de Cafetaleros* (CEPICAFE) are working to break this cycle. By bringing producers together to improve their bargaining power and creating economies of scale, they are expanding farmers' access to the tools and resources necessary to enter new markets and break out of poverty. Formed in 1995 with fewer than 400 farming families, today CEPICAFE is a self-governing producers' association with 6,300 members who produce over 1,875 tons of coffee annually.

According to CEPICAFE director José Rojas, the 6,300 associates still handle only the first stages of coffee production. "But in contrast to their independently operating cohorts," he adds, "CEPICAFE then manages every stage of the export value chain. Washing, fermentation, drying, transportation, processing, and packaging are all handled internally, and the value of each stage is captured by farmers themselves."

In 2005, CEPICAFE established a sales office to negotiate directly with international buyers. The organization now sells nearly 95 percent of its annual coffee yields to the highest value-added niches in the industry: certified organic, Fair Trade, Rainforest Alliance, and other gourmet niches.

Sales to ultra-premium markets generate more revenues and higher incomes for producers. But farmers can only access these markets if they have the education and resources to invest in their farms. CEPICAFE offers courses in organic certification, crop science and business management. In 2006, the organization even established a members-only credit union.

Today, millions of developed-country coffee connoisseurs are drinking high-end, conscience-soothing coffee. Thanks to organizations like CEPICAFE, small-scale growers across Peru are acquiring the resources to access high-value specialty markets that can improve their lives and help sustain rural communities.

Boom or Bust? Asparagus in Peru

by Edward J. Remache

Asparagus has grown in just over 20 years from an almost insignificant presence on Peru's trade balance sheet to becoming the country's largest agricultural export. Annually, Peru rakes in more than $450 million in exports to the United States and Europe of 360 million pounds of the speared vegetable—both its green and white varieties, fresh and preserved.

What catapulted the asparagus boom? The answer begins with the concerted effort of the Peruvian government to collaborate with private industry in adopting modern technologies to enable year-round asparagus production. Following the liberalization of Peru's economy in the early 1990s—which allowed private corporations to purchase large tracts of land—asparagus production shifted from a small- and medium-size farm operation to mass production.

Land purchases were made in the northern coastal regions of La Libertad and the southern region of Ica, where weather and soil conditions are ideal for growing white and green asparagus year-round. Large numbers of migrant workers from indigenous populations provided ample labor. All these circumstances converged to transform a country known first for its guano and later its anchovies into the world's largest producer and exporter of asparagus.

But there has been a downside as well. According to recent studies and news reports, benefits for the workers who have migrated to these barren regions have not improved despite increases in revenue from asparagus production.

In fact, according to the nongovernmental organization *Aurora Viva*, most workers involved in asparagus production are considered temporary workers and receive no benefits and a minimum-wage salary. They are also subjected to poor sanitary conditions and substandard food and water.

Another issue is that the expansion of the asparagus industry to previously deserted lands has created a drain on limited water resources. Local farmers report wells running dry and groundwater tables being depleted as a result of increased irrigation needs, and rising tensions between asparagus growers and local community members. The water scarcity has also forced producers to spend more money digging deeper wells and building longer pipelines.

Growing concerns over working conditions and the environmental strains of Peru's asparagus boom raise questions about its sustainability. From guano to anchovies, Peru has lived boom and busts of fickle commodity markets. This time, though, the challenges are internal. Can it meet them?

2003, *Casa de las Artesanías* has overseen the construction of nearly 100 kilns in ceramic-producing communities around Michoacán. Beyond the direct provision of kilns, a variety of small, subsidized loans provide the credit necessary for upgrading them. In 2009, despite complaints from local producers that the loans were too small or too risky, Fonart lent almost $80,000 (1 million pesos) in financing across the state.

UPGRADE RESISTANCE

Despite all these efforts, Mexican producers and consumers remain skeptical of the dangers of lead, and Mexican laws restricting lead-based glaze in cookware are rarely enforced. That has been a major hurdle to the widespread adoption of the exportable glaze by family workshops. But there are others as well—such as the lack of training in the skills needed for applying the new finish, the lack of appropriate equipment and the cost of switching to the new process.

One might imagine that the health risks posed by handling and firing lead, particularly around one's home, might serve as motivation to adopt new methods. But according to Laureano Martínez, a trainer who teaches other ceramicists how to incorporate lead-free glaze in their operation, profit is the only factor that matters in the decision to upgrade. Martínez says of his students, "Those who have changed to lead-free glaze have done so because it has been demanded by their customers."

Small-scale ceramicists often operate on a thin profit margin, with little time or resources to commit to mastering new materials like lead-free glaze. This is by no means unique to the ceramics sector. It is also true for family workshops across industries, especially given that business and household budgets are intertwined and that sales income is simultaneously used to meet house, workshop and dependents' needs.

Experimenting with a new firing method also brings added costs and risks. Rather than trying out a new technique with only one or two pieces, observing the outcome and then making adjustments, producers are compelled to fill kilns to capacity in order to achieve maximum efficiency. Typically, artisanal workshops have an open-topped, circular kiln above a small, subterranean firebox. Once the kiln is fully loaded, a wood fire is lit below and stoked for hours until it attains sufficiently high temperatures to set the glaze. As a result, a small batch requires as much fuel as larger one, raising the cost of pieces produced in small runs.

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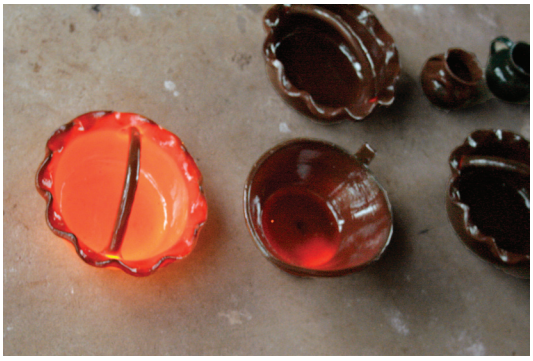

Artisans in Capula experiment with removing ceramics from a kiln at high temperatures to prevent sticking, a common problem with lead-free glaze (above). Pottery dipped in boron glaze awaits firing (top right).

Not only does the traditional kiln discourage the development of new skills, but it is also not suited for upgrading to lead-free glaze. The new boron-based glaze must be fired at slightly higher temperatures for a longer period, which is tricky to accomplish in open-top kilns. Replacing or modifying such a central component of the workshop is costly. So even though the new glaze is less expensive than lead-based glaze, few producers see it as an overall benefit.

A commonly cited claim is that an inexpensive fan costing no more than $50 would allow existing kilns to attain higher temperatures, but producers remain skeptical. Many of those who continue to use the lead-oxide glaze believe that the boron-based glaze would require a new kiln. Estimates range from about $550 for a closed, wood-burning kiln to about $2,000 for a gas-fueled adobe kiln.

TRADING OUT

The barrier that remains the most challenging, however, is the lack of access to foreign export markets. Without secured markets to sell lead-free ceramics, producers say it's not worth their while to transform their workshops, regardless of any credit and technical skills provided them. Fonart and *Casa de las Artesanías* have not been able to connect producers with viable and consistent export markets for lead-free products, though these markets exist. Both organizations purchase ceramic goods from the producers, but few have export outlets to sell them beyond the stores around Michoacán or in Mexico City.

Moreover, *Casa de las Artesanías* continues to purchase lead-glazed items including plates, bowls and cups for tableware or food preparation—potentially lowering the incentive for producers to upgrade. According to producers, selling lead-free goods to Fonart and *Casa de las Artesanías* is not sufficiently lucrative to justify the transition on the grounds of commercial profitability. In short, although these government agencies have promoted technology and skill diffusion, they have yet to solve the issue of the lack of incentives.

To accomplish this, local artisans must become knowledgeable about costs, retailers and legal requirements related to foreign markets. In a perfect world, demand would be met seamlessly by suppliers who detect its fluctuating levels. In the developing world, however, and especially the world of cottage industries and other small enterprises, information about markets beyond the local realm is not readily accessible or comprehensible. For a family-trained artisan with little formal education or access to market information, it is extremely difficult. The markets for traditional Mexican ceramicists were often just a few towns away, so it was easy to adjust production to fit demand. Getting market information on tastes, styles and packaging from markets hundreds—if not thousands—of miles away is a different matter.

Nevertheless, since the beginning of the effort to disseminate both lead-free glaze and the knowledge necessary to use it, a number of small private operations have successfully exported lead-free Mexican ceramics to the United States. This supports the belief among many of the producers that what is missing is not international demand for their products, but the channels for that demand to be communicated to suppliers. Raúl Fuentes, leader of the Ceramicists Union in Capula, puts it this way: "We know the market exists; what we don't know is how to get our products into it."

The trying decisions that local ceramicists face in order to sustain and expand their business make clear that changing production methods is not an organic process. Rather, it falls upon the Mexican state and federal agencies and NGOs to bridge the gaps faced by producers of ceramic tableware to make integration into the international market possible.

A closed-top kiln built by the *Casa de las Artesanías* is designed to burn hotter and spare artisans from exposure to heat and wood smoke.

Barro sin Plomo has demonstrated that sufficient visible demand does in fact provide an impetus for upgrading to lead-free production. Although *Barro sin Plomo*'s goals include the improvement of health and working conditions, the NGO realized early on that upgrading would have to be driven by the probability of financial gains for producers. *Barro sin Plomo* and its for-profit, export marketing arm, Echery Pottery group—both founded and directed by Víctor Aguila Sánchez, a master trainer in lead-free techniques—were able to draw upon and generate commercial contacts in the U.S. to distribute the lead-free pieces from Michoacán potters. Access to export markets allowed them to pay producers a higher premium than prices earned in the domestic market.

Barro sin Plomo has helped over 1,000 potters convert to lead-free products that meet FDA standards; export sales from several Mexican states, including Michoacán, surpassed $200,000 in 2006 alone. "*Barro sin Plomo* made orders every month—and large ones—and bought higher-priced pieces because they were exporting. This is why we used the lead-free glaze," recalls Fernando Arroyo of 2006, when lead-free production became profitable for his family workshop.

Another producer, who has developed contacts with U.S. buyers, notes that while production costs for lead-free goods can be 10 percent higher due to higher firing temperatures, they are more than covered by the notably higher prices that the goods command among foreign buyers.

Skeptics of these kinds of government efforts to improve global competitiveness—in the Mexican ceramics sector and in more economically dynamic areas—say that they simply forestall the phasing out of obsolete industries. But in a world where market imperfections, credit constraints, lack of information, and inefficiency itself are omnipresent, policymakers are justified in helping SMEs bridge the gaps through education and equipment, and by establishing connections with the private sector.

In Capula and throughout Michoacán, collaborative efforts to assist family workshops in upgrading have given traditional ceramics producers a shot at gaining access to the global market while mitigating health risks to themselves and their families. Since the trend toward open markets is unlikely to reverse itself in Mexico or elsewhere, these public-private efforts may serve producers in developing countries as well as consumers in developed ones.

Mexico's efforts to link small ceramics producers to consumers in the U.S. and other developed countries may be a model for future efforts to help producers transition to the fast-paced global markets. Uriel Arroyo and the ceramicists of Capula may not be the only ones who stand to benefit from these efforts. There are millions of small producers in the developing world whose policymakers have yet to learn how to facilitate their engagement with the global economy by helping them bridge the market gaps they invariably face. AQ