

THE BROOKINGS INSTITUTION

A PREVIEW OF MEXICO'S UPCOMING ELECTIONS

Washington, D.C.
Friday, June 29, 2012

PARTICIPANTS:

Introduction and Moderator:

DIANA NEGROPONTE
Nonresident Senior Fellow
The Brookings Institution

Panelists:

ARTURO FRANCO HERNÁNDEZ
Resident Fellow, Center for International
Development
Harvard University

CHRISTOPHER WILSON
Associate, Mexico Institute
Woodrow Wilson International Center for Scholars

CARLOS RAMIREZ
Analyst, Latin America Practice
Eurasia Group

* * * * *

P R O C E E D I N G S

MS. NEGROPONTE: Good morning, and thank you all for coming this morning, and thank you to the Latin American Initiative at Brookings for sponsoring this event here at Brookings this morning. I also give particular thanks to Diana Caisero and Alma Caballero for both helping in the organization of today's presentation. We have a wonderful panel, a strong panel. Diana, I've just recognize you, so raise your hand because you are key in the organizing and in the offering of breakfast this morning.

We have a very strong panel this morning. Arturo Franco has just flown in from Monterrey to come and participate in this debate. Thank you to members of the Mexican Embassy for coming. We really appreciate your attendance here this morning; Chris Wilson from the Woodrow Wilson Center for International Scholars, its leading authority on trade and investment is here; and Carlos Ramirez from the District of Federal, Mexico City, but here via the Eurasia Group, perhaps the leading corporate consultancy in political risk analysis whose clients include among them many multinational corporations and the U.S. government.

We have a strong panel to address a critical question. Who wins? Why does it matter? If Sunday were the Canadian elections and with due respect to my Canadian friends, I doubt that more than five of us would gather. Why does the Mexican election matter? Each of us in our own minds are thinking of the reasons. But I would argue that going beyond the importance of stability in Mexico and security in Mexico in order to keep our southern borders stable, there is the fact that there are 11.7 million Mexican born people living in America and beyond that is a further 14 million of Mexican ancestry. This is now the largest ethnic group in the United States and I'm an immigrant.

Among that close to 32 million Mexicans, there are the 6.5 million Mexicans with no papers, an issue which is of key concern in our electoral campaign and

in the Supreme Court's decision on the Arizona BS 270 law which came down a week ago. So what happens in Mexico is of concern to the Mexicans living here, to the security issue on our border and I would claim to a key area which is the prosperity, wealth and jobs here through the manufacturing, integrated automobile industries that exist between our three countries. That's why over 90 people have showed up on this sticky morning to listen to three fine panelists.

We are here because we have a book and editors of books like to do the promo, so were we are promoting. But the publisher has not yet blessed this book, so the potential hopeful publisher has asked us not to distribute, we may not use the chapters which we have given you, you may not cite them as coming from Brookings and you will please use them as background until the press has blessed it and the book is out. And of course you'll be coming back for copies to buy, but today is for free. Please if you would help us by not abusing the use of the background material that we have shared with you. The book originated last August with Arturo Franco meeting a wonderful Colombian at the World Economic Forum in Geneva and saying, There is a book on Mexico. And here we are close to 11 months later with the book about ready to go if the publisher would bless and our panelists are eager to talk about it. I would be wonderful if we could have each of the authors, but Armando Chacon, the author of the education chapter, is tied down in Mexico as is Eduardo Guerrero, the author of the security chapter. I have however included outside the education chapter because I believe it very important that we understand here the challenge that Mexico faces through an inadequate public education system which results in an average of 8 years of education for a young Mexican and very low attendance at the tertiary level, with the results that although the Mexican government claims that it is producing more engineers than we are, I am skeptical on the quality. But Mexican education matters for those who

are going to make Mexico prosperous and for those to choose to come and live here in the United States and participate in quality, high-paid jobs. The Mexico chapter, the education chapter, is our gap this morning, but please take that chapter at the back.

We're going to do the following. Arturo is going to make a presentation on political gridlock and the puzzle of the economic as well as portray his analysis of the trends for the election for Sunday and what the outcome means. He will be followed by Chris Wilson who will give his analysis of investment and trade flows. And then Carlos who has not written a chapter and therefore is objective because he has no stake in this enterprise will wrap it up with his objective commentary. I pass the podium to Arturo Franco. Thank you.

MR. HERNANDEZ: Thank you, Diana, for your kind introduction. Carlos and Chris, it's a pleasure to share this panel with you. And thank you everyone for taking the time to be here this morning.

In many ways I consider myself to be an outsider/insider of Mexico. Outside because I've spent 3 of the last 10 years living outside the country and this has allowed me to experience it from a distance through the looking glass of the international community in a way. From my time in Switzerland working with global leaders from all sectors and also during my years in academia in Boston, I've been able to have the opportunity to work on Mexico rather than from Mexico and this gives one a very valuable perspective.

Yet I am also myself a product of the economic and political transformations of Mexico in the last three decades. I have lived through three economic crises and two recessions. I have seen my country suffer through transformation and change. And I've seen my grandfather for example lose his orange farm to competition from NAFTA. But I've also benefited in the last three decades. I am part of a new

generation of Mexicans who speak English and travel and who compete globally. I am part of a generation who grew up with openness and trade and more freedom and more democracy than ever before in Mexico. My presence here today as could be the case of Carlos and many of you today is evidence, it's testament, that in Mexico social mobility and opportunity to exist. However, is it enough? Is it available to everyone? As the title of the book which cannot be shared suggests, it's called "Mexico Moving Forward from Nostalgia to Global Competition," is it really moving forward? Are we really looking at a prosperous future of global competitiveness or is it caught up in this nostalgia of the past? What does nostalgia really mean? Let me show you a little bit of the data that we've gathered to try to answer this question.

During the decades of the 1960s and the 1970s, Mexico had average growth rates of 7 percent. More recently, Mexico has settled for growth rates of 2 percent. In fact, if you take the two last presidential administrations, the growth per capita of the country has been dangerously close to zero. Why? Because productivity has stagnated. Total productivity and GDP for worked hour has remained very close to the 1980, the year that I was born. South Korea had a GDP per capita of \$4,000 in 1980. Mexico had \$5,000. Today South Koreans earn on average \$30,000, while Mexicans earn less than half. Many people in Mexico don't like this kind of comparison. They think it's unfair. They think they would rather being comparing ourselves with Argentina or Brazil. I don't believe that South Korea had any advantage over Mexico's geographic position, research endowment or access to markets in the last 20 years. Neither did the other countries in the graph that beat Mexico in growth. Mexico in 1992 was one of the first or the first country accepted into the OECD that was nondeveloped. Because of that reason, when the first BRICs paper was written by Goldman Sachs later on, both Mexico and South Korea were deemed too developed to become part of the now famous

acronym, while Brazil was of course the country of the enteral future that never came to be.

If you want to compare Mexico with Brazil, we can do it as well. Maybe not on growth and definitely not on soccer. Let's compare Mexico and Brazil on poverty alleviation. During the last decade, Brazil has been able to reduce 50 percent of its poverty rate, while Mexico has both poverty and extreme poverty rates that are very similar to the ones that it had at the end of the last decade. By the way, Brazil beat Mexico in growth during the last decade. For me, nostalgia is constantly looking for easier countries to compare ourselves with instead of learning from those that have shown success.

Why has Mexico underperformed economically? During the last few months I've analyzed more than 30 studies that were written between 2008 and 2012 that touch upon this growth puzzle that Mexico is facing. The good news is that they all agree that Mexico has solid economic fundamentals, fiscal and monetary policy have been appropriate and that as Chris will probably touch upon, investment and trade prospects are very positive in the future including with the United States. They all agree that Mexico can grow much, much more. The bad news however is that there are more than 50 single factors or explanations why Mexico hasn't grown. I have tried to arrange them in a way that people can analyze them, but really is it the business environment? Is it the rule of law? Is it underinvestment in human capital? Is it the monopolies and the oligopolies that we all know about? Is it NAFTA and the diminishing returns to trade? Or is it China, competition in the U.S. or China in Mexico? The reality is it's a little bit of everything and many people in Mexico feel that with the so-called structural reforms that we've been talking about for decades, all of these problems will disappear. Let's look at what's happened with reform in Mexico.

In 1997, the year that a single lost absolute majority in Congress forever, the rate of approval of initiatives of law from the Executive and the percentage of laws that come from the president have had a massive reduction. To me this is called political power transfer from the presidency into Congress. At the same time, if you look at the graph on the right, we'll see that there has been a huge drop in the number of constitutional reforms that Mexico has approved. There was a little rebound with the Calderon -- but the economic reforms have been held hostage during the past 15 years in Congress. I'm speaking about energy reform. I'm speaking about comprehensive fiscal reform. I'm speaking about an overhaul of the competition laws, about the 30-year-old labor law that Mexico has. All of these reforms have fallen ill to the same predicament which is called paralysis, reform paralysis and political gridlock in Mexico. To me nostalgia again is thinking that we can go to a past where political competition and democracy will get in the way of reform, when reform just happened when it gets mandated, and that is what many Mexicans are thinking should be the way forward.

Now let's talk about what you're all here to talk about which is the election. Every 6 years Mexicans change their favorite pastime which is watching soap operas to watching polls which is pretty much the same. In the soap opera of 2012 we have the leading actor, Enrique Pena Nieto, married to a soap opera actress, who said that he has a new PRI, a reformed PRI, but hasn't shown any evidence that he has a means or the will to change the whole group of interests and practices that come with it. We have the favorite villain of Mexico's ruling elite, Andres Manuel Lopez Obrador, who is in 2012 the most fierce and biggest critic of Lopez Obrador in 2006. He has completely tried to reinvent himself with a loving manner. Now people don't believe him and his opposition is not playing along. Then we have Josefina Vazquez Mota. In any country with a presidential democracy, during the debates people would mention the incumbent,

the president. Calderon has not been mentioned in the three debates. And Josefina Vazquez Mota in spite of being the official candidate of the PAN has not acted as an official candidate because the PAN has not been in control of Mexico and because she is not part of the group of the president. Mexico seems very keen to kick out the PAN from Los Pinos and even people from her party like President Fox have jumped ship to support Enrique Pena Nieto.

What's happened in the past is very interesting. In the two last elections, the person who was winning in the polls in January lost. So in January it was Labastida. He had 49 percent versus the 37 percent of President Fox. He lost by 6 percent. In 2006 it was Andres Manuel Lopez Obrador leading by 8 points in January. He lost by .56 percent. Even to the last weeks of the election in 2006 as we can see there, the convergence of the polls was very clear and in the last moment almost 8 percent of the electorate made a decision.

With this background you can really analyze the trends this year, and there are three decisive factors 2 days before the polls. The first uncertainty is the level of turnout. If Mexico has a turnout on Sunday than is over than its average which is 60 percent, the election will be won by Enrique Pena Nieto. The corporatist vote wakes up early. If Mexico has a turnout of 65 percent or 70 percent, it will get very close. I still don't know about this theory of youthful vote. The youthful vote, I don't know if it's a -- concept means that when you don't have a second electoral round as many countries do, you create one artificially. You ask your people to vote for a different party than the one that you are promoting. The youthful vote could go either way. It could go to Josefina or it could go to AMLO from their respective parties. Right now the polls show that AMLO has a bigger propensity to win that vote. But the undecided, this little gray line that can see on the bottom, is the biggest surprise of the 2012 electoral process. We've usually

had a tendency to have a downward sloping line of undecided of course as they'll make their decisions. But this year we still have 21 percent of undecided voters. Are they undecided about the candidate? Are they undecided about going to vote? Are they undecided about an -- of the vote versus the candidate? We don't know, but I think we'll know by Sunday.

There is a last thing I want to say which is how you can look at the election from a regional perspective. This came out in El Norte. This is the two Mexicos, the Mexico of the north where Pena Nieto is winning in most of the states. His averages are 39 in the north and 42 in the Bejeo. And the south is Lopez Obrador where he is winning. This to me makes it an election between two candidates. Of course, Josephina with the youthful vote could get votes here and there and she is we have to say this the first woman with real possibilities to be the President of Mexico, so we have to respect that. To me this is very simple. It translates almost perfectly to the poverty rate of the country. Mexico is two Mexicos at least. It's actually four Mexicos. Two Mexicos, a Mexico of the north with higher income and development than the Mexico of the south, but also these two Mexico that look backward and the Mexico that looks forward or the other way around.

Who is going to win on Sunday? As Diana said, I just flew in from Monterrey. Unfortunately, my major crystal ball was confiscated in customs. They said it was flammable. So I'm going to have to leave you to this. Whoever wins, let's hope that it's not because of this nostalgia, of this feeling that we were better when we were worse, of this antidemocratic sentiment that is reflected in the Latinobarómetro, polls that say people are willing to give up political freedom for economic development. Let's hope that it's a Mexico of global competitiveness of our generation and of the future. Thank you.

MS. NEGROPONTE: Arturo, thank you. I know it's provoked a number of questions, but I want you to hold onto those questions until our panel is finished. Chris Wilson, please.

MR. WILSON: I'm going to step back from the elections again and try to talk a little bit about in economic terms why the elections and why Mexico, the relationship between Mexico and the United States more generally, matter to the United States and maybe a way forward after the elections with that economic relationship.

Due to the amazing but even growth in U.S.-Mexico trade and investment since NAFTA was implemented in 1994, the United States and Mexico and Canada as well as no longer competitors but are partners working together on a global economic stage, a very competitive global economic stage. And since the passage of NAFTA, despite this link that's been formed between us, little policy attention has been focused on what to do next, what are the policy steps that we can take beyond simply implementing this free-trade agreement to improve the competitiveness of the region. I think that there are two reasons why the moment has arrived to take on this challenge to talk about a regional competitiveness agenda. The first is strategic. Right now if you read about Mexico and the United States, you're reading headlines about mostly drugs and violence and a little bit about illegal immigration. It's really a problem and hence Mexico is understood in the United States as a problem that needs to be solved from the public perspective and to a large degree from a policy perspective. But at the same time, there is tremendous growth, growth unlike anything we've seen since the early days of NAFTA in terms of trade in terms of the economy relationship between the United States. There is tremendous potential that we could reframe the relationship through a vision of business partners and through opportunity, and that's not to put aside or to negate the

real challenges that are there, but it's to rebalance the agenda. So there's a strategic reason why for the entire relationship we should be thinking about economic issues.

The second is simply economy. Competitiveness clearly since the major recession, the major economic crisis, that both of our countries experienced together is a big challenge. In the starkest terms what that means is can North America build products for the global market that are competitive with those built by China and the rest of the emerging markets in Asia? I don't think that it will be easy, but I do think that the answer is yes we can. A competitiveness agenda strong enough to meet this huge challenge is what's going to be needed to gather the energy behind a movement to strengthen regional relations. My chapter focuses on the regional components that such an agenda would have. It's important to say that there will have to be domestic reforms, some of the structural reforms that Mexico needs and reforms in the United States also regarding things like budget and education in order for the agenda to be strong enough. But I think we can create an umbrella under which there are both regional and domestic components that are sufficiently exciting, that are sufficiently compelling as to say that we really can as a region recover the competitiveness that we perhaps lost over the last decade so that I think there is a big opportunity there.

This is basic bilateral trade and investment statistics. Before laying out the components of such a plan I think it's important to be grounded in the simple significance of the U.S.-Mexico economic relationship. Annual U.S.-Mexico goods and services trade probably reached a half-trillion dollars combined in 2011. We don't have the numbers for services trade in 2001, but about \$460 billion in bilateral goods trade, merchandise trade and another approximately \$40 billion in services trade. That's a huge number. Mexico is the United States' second-largest export market, its third-largest trading partner and the United States is of course by far Mexico's largest trading partner.

Merchandise trade has quintupled since NAFTA was implemented in 1994, and bilateral foreign direct investment positions rather than flows, the accumulated totals over time, have grown sixfold. NAFTA spurred a lot of this, but it's not of course just a policy decision. We're natural partners because of geography and because of complementarities between the two economies and differences between the two economies.

But as impressive as the simple magnitude of the relationship is, is its depth which is immense also, it's profound. Driven by the opening of trade between the two countries, Mexicana and American manufacturers now work in an integrated manufacturing sector building goods together. Products go back and forth across the borders of the United States, Mexico and Canada as a product is made. Some people talk about maybe cars as they're built across the North American borders, somewhere between 7 and 16 times, different numbers are thrown around, but the point is that the manufacturing sectors are working together, parts are flowing back and forth across the borders and this links us in a very deep way. It means that improvements in productivity in one country leads to improvements in competitiveness of the region as a whole, helping prices for manufacturers. It also means that our economies are simply linked at the hip. We experience cycles of growth and recession together as we saw in 2009 once again, but even more than simple business cycles, I think that our long-term prospects for competitiveness and growth are also linked.

You see in the one statistic that I'd point out here is simply that in comparison to other countries, this is the U.S. content in good imported from other countries. When we import a good from Mexico, 40 percent of that product on average was built in the United States or was value added created in the United States. That's very high also for Canada at 25 percent, but if you compare it to China for example at 4

percent, it means that there is 10 times more value given to the United States when we import something from Mexico versus China. If we're deciding between offshoring production to China and near-shoring it to Mexico, I think the decision in terms of U.S. interest is quite clear that we want to keep that production here in North America so that the manufacturing jobs and value added associated with that, 40 percent of it, stay right here in North America also while we can take advantage of cheaper wages and other productivity improvements that you can get by offshoring.

Over the past two decades there have been three moments that have marked turning points in the U.S.-Mexico economic relationship. The first was the implementation of NAFTA which eliminated barriers to trade and investment and caused trade and investment to skyrocket. Between 1993 and 2000, this first stage, trade grew at an average annual rate of 17.3 percent, it more than tripled in value during that period, but then around the turn of the millennium we had a slowdown. Between 2000 and 2008, trade grew at a modest average annual rate of 4.5 percent. There are several factors that led to that. Certainly the terrorist attacks of 9/11 caused the U.S. to focus more on homeland security and on border security which added a point of friction in trade between the nations. Also in 2001, China joined the World Trade Organization, and a longer-term process was also underway with China growing, but China gained access to Most Favorable Nation tariffs and trade between the United States and China started to skyrocket. This shift created more competition for Mexican and U.S. manufactures together as we saw factories moving to China for example. But remarkably, there has been a shift in the patterns again and from the depths of the recession there is restructuring of the global economy and a restoration of both U.S. and Mexican competitiveness. After trade fell 16.8 percent between 2008 and 2009, trade has risen at an average annual rate of 23.7 percent between 2009 and 2011. That's faster than

during any 2-year period since NAFTA. Trade right now is growing faster than it grew in the 1990s after NAFTA was implemented. It's faster than trade with the United States and China growing right now which is at 17.3 percent. So we have this boom in trade between the two countries right now.

I'm going to talk a little bit about investment as well which in the U.S.-Mexico context relates very closely to trade and manufacturing. Bilateral investment boosts trade and employment. It supports entrepreneurs and business development. It's a fundamental component of these production sharing arrangements whereby our manufacturing sectors are linked. This graphs shows stocks again rather than flows which we're accustomed to hearing about in foreign direct investment. What I'm trying to show by doing that is how our economies are increasingly linked together over time as we invest more and more each year in one another. In 2009, U.S. owned companies created \$25 billion in value added and employed close to a million workers in Mexico. Mexican investment in the United States is less but it's growing quite quickly especially since 2005. In 2008, Mexican companies operating in the United States employed 46,000 people and operated 124 production plants. Mexico's top companies are increasingly local and have a growing presence in the United States. Some of those are Grupo Bimbo that you may or may not have heard about, but it just recently bought Sarah Lee which I'm sure you have heard of. Other companies that are here are Semex Grupa Lala which is a milk company or dairy company, America Mobile Grupa Alfa Televisa Gruma Grupa Linas. The list sort of goes on. Mexico's big companies are increasingly global companies and U.S. companies as well.

To further boost levels of foreign investment in Mexico and the United States, you do need a healthy business environment and prospects for strong economic growth. That's why if we're talking about a regional competitiveness agenda, we need to

be talking both about things both the United States and Mexico can do individually as well as regional components of that. For example, significant steps have been taken in Mexico in recent years to improve its climate for business. The World Bank's Doing Business Project for example found the average number of days needed to start a business in Mexico declined from 58 in 2006 to nine in 2012. Mexico's score for protecting investors in the same study rose from 3.7 out of 10 to 6 out of 10. Mexico has achieved a remarkable, as Arturo mentioned, level of macroeconomic stability since the 1994-1994 crisis. This supports economic growth, it's kept inflation in check and it's made government borrowing affordable. For example, Mexico's sovereign debt is estimated by the IMF to be at a manageable 43 percent of GDP compared with some of the astronomical figures we're hearing out of Europe these days. Mexico has maintained and has achieved this macroeconomic stability which certainly is a draw for foreign investors.

Nonetheless, there are significant impediments to investment in Mexico. Not least of those is corruption and business practices. We have recently heard about this Walmart scandal where over \$24 million in bribes were paid to facilitate the permitting process so that Walmart could expand in Mexico. The response was to say this is a common practice which is further evidence of the problem that's there. Violence has not as many suspect scared off foreign investment in Mexico. Foreign investment is strong. Nonetheless, there clearly is an image problem. The real solution is to strengthen the rule of law. The list goes on. There are all of these structural reforms that we know are on the agenda and all of these, labor, fiscal, education, et cetera, are important for Mexico, but they're also important for the United States because of this way in which our economies are intricately linked together.

To talk very quickly about policies and strategies for competitiveness, I think that we can have a trade strategy that's based on seeing North America as a bloc. Mexico's and Canada's joining the negotiations for the Trans-Pacific Partnership recently is a clear example of this. The United States has declared that it's going to make a pivot toward Asia which makes sense. Mexico is also focusing more attention on Asia. But there is a big question which is do we do that individually or do we pivot jointly and do we see ourselves specifically in economy terms, although the strategic element is also there? I think there are opportunities for collaboration not only on trade agreements but also on issues like China's currency, on following compliance for WTO rules and if we see ourselves as a bloc, which we are, then we can maintain this competitive advantage that we've achieved. If we start negotiating bilaterally, if we start to take things on individually, we risk adding new barriers between North American countries as we construct new agreements.

The border is a huge issue. As I mentioned, at the turn of the millennia we faced an issue after 9/11 there. To resolve these problems, Presidents Obama and Calderon launched the 21st Century Border Initiative outlining strategies to simultaneously improve security and efficiency. Top on the list of things there are the Trusted Traveler and Interested Shipper programs which are programs where companies voluntarily submit to extensive background checks to prove that they present little risk to trafficking illicit material in order to have expected passage across the border. There is tremendous opportunity to grow these programs.

Very briefly, there are also efforts underway to harmonize regulatory standards between our countries. These could be things from vehicle safety to food and drug safety. If we have them harmonized we don't need to have three separate lines of production, one for Canada, one for the United States and one for Mexico, we can have

one single line of production which saves companies money and makes their products more competitive. Likewise, on the customs side we need to simplify procedures to take advantage of NAFTA. Right now there is a lot of paperwork and documentation requirements. I would end with one interesting idea that has not been sufficiently explored which is an effort to move toward a common external tariff. That's not implementing a customs union, but going product by product, finding products where the difference in tariffs among the nations, external tariffs to the rest of the world, are small where we could negotiate a common tariff on that product and then that product alone once it's negotiated would no longer have to have these rules of origin requirements and you wouldn't have to prove whether or not 50 percent of the product came from China or enough of it was created in the United States, you would know that that product met this common external tariff and now could move freely through the nations.

I realize that taken individually these types of ideas, talking about the regulation of Cheerios, for example, is not a particularly exciting idea. It's not going to get presidential attention very often, it's not going to generate public support and that's why I think it's vital that we package these things together regional issues with domestic issues and we have a conversation about how as a region we can win back our competitiveness, we can make products produced in this region more competitive than products produced anywhere else in the world and that's the type of conversation that we should be having when we talk about U.S. and Mexico economic relations. Thank you.

MS. NEGROPONTE: Thank you, Chris. I'm now going to ask Carlos Ramirez to give his perspective, and he has no PowerPoint.

MR. RAMIREZ: I don't know if that's an advantage or not. First of all, thank you very much to Brookings, and Diana, thank you for your warm invitation and your kind invitation, and certainly it's a pleasure to join Arturo and Chris on this panel.

Let me start with a high note. I have a crystal ball, so it was not confiscated in the border, so although there is certainly a lot of uncertainty of what's going to happen on Sunday, I am going to try to make some predictions about obviously the election itself, but what's going to happen afterwards. Of course, we economists or political scientists are not very good at predicting things in the future, but I'm going to take a shot.

Let me first of all mention that I think Mexico is right now in a quite critical juncture. If you look at Mexico from a positive perspective, I think the next administration is going to inherit a country with a lot of problems certainly, but from a macroeconomic perspective and in general broadly from an economic perspective, Mexico is doing pretty well. The economy is expanding. It looks as if it still has pretty much to go in the coming years. Mexico has been regaining competitiveness vis-à-vis China. Things seem to be happening for Mexico for the first time in many years. I would say that the next administration will probably inherit the best conditions from an economic perspective than any other administration probably in the past 30 or 40 years.

Certainly when Fox started his administration, the Mexican economy was already in recession and the recession took three more years to get out. And Calderon started his administration with a very serious food crisis in the world and certainly with signals and symptoms that the world economy was going down. There are certainly symptoms that the world economy is not doing really well and there are risks going forward, but I would argue that Mexico is today in a better position than it was probably in the past 30 or 40 years and that's good for the next administration.

Obviously the next administration starts with huge challenges and certainly Arturo and Chris have mentioned some. Huge challenges not only the security situation which captures the attention of all of us, but there are many underlying problems

in the economy that haven't been solved that probably don't make the headlines every day, but they're out there. For example, let's talk about Social Security Institute in Mexico, the IMS or the ISTE. Both institutions are broken. What is the next administration going to do? Mexico has a severe problem of pensions. Pension expenditures have been growing consistently during the past years and this looks as if this snowball is going to get worse in the next years. The message here is that the next administration has huge challenges and that remaining as we are right now is not an option. The status quo for Mexico is certainly high risk in the coming years. If we remain as we are now doing little things but not solving the more structural problems, the most likely scenario is that Mexico will end up having in the future serious trouble not only on the economic but obviously on the social.

I tend to agree with Arturo that the Mexican problem is certainly not of the lack of studies of what explains the low-growth environment in Mexico. You could fill a small library now with all the studies that are out there of why Mexico is not growing fast enough and certainly this is not a matter of ignorance. We know what is putting the economy down, what is constraining the economy from growing to its real potential. If it's not a matter of ignorance, what is it? I think much of the energy of Mexicans during the past 15 years was placed probably in the 1990s and part of the last decade from a political perspective was put into how to transition from a hegemonic political system toward a multiparty democracy. Much of the attention was placed on how to access power, the electoral rules, how to make them fair to everyone, how to guarantee that there would be no more fraud. I think on that front that Mexico has been successful. Even though there are some people that still talk about fraud, at the end of the day we know that Mexico will hold this election on Sunday and there is no risk of fraud. The problem is that all the attention was placed on that problem and little was placed on how

to execute power. What we know from the past 50 years is that the governments have been constrained by the stalemate that Arturo mentioned and that the main problems of the country, I'm not saying that some of them have been tackled and certainly some of them look better today than they looked 50 years ago, but the problem is that as for many others they haven't been confronted mainly because what Santiago Levy always tends to say, Mexico hasn't been able to dismantle this rent sharing rent coalition political system that is hindering the potential of the economy. I'm sure you've probably seen this new book that came out recently from Tara Asemiglu and Robinson. I think that book explains pretty well what's been going on in Mexico. We are still in the transition from moving from extractive institutions as they call them toward an inclusive institutional framework, but we are in the transition. We're stuck in the middle and that explains in good part why the country has been underperforming in the past 30 years. We could argue that in the 1960s and the 1970s, although Mexico grew pretty strongly, there are many reasons to explain why that happened, but not this idea or view that Mexico had these miracle years because it was doing everything right and that's obviously another type of discussion.

Let me quickly talk about the future. I think Enrique Pena Nieto is going to win the election. The average poll has him 15 points ahead. Even the two pollsters that are known to be let's say closer to the view of AMLO puts him 10 points behind. You would need to have a huge surprise if something different happened on Sunday. Let me use Pena Nieto winning and think a little bit about how his administration could look. To answer that, I think we have to answer two fundamental questions. What is the PRI likely to do? What is going to be the agenda of Pena Nieto? And if we are talking about reforms, what is the PAN going to do from the opposition? I've read some views in the past week of some people arguing that reforms are going to pass quickly. Why? Because PAN now in opposition have a very market friendly orientation, they try to move

the reforms during the past 12 years, it wasn't possible. So now from the opposition they will join forces with the PRI. End of story. Wrong perspective. Unfortunately that's a wrong perspective because PAN certainly after 12 years of consecutive blocking in the Congress is not going to join forces with the PRI. Obviously you would have to say that it's been 15 years because PAN also blocked the PRI from 1997 and the year 2000. But in the last 12 years certainly PRI blocked every single reform that PAN proposed. I was 2008 spokesman of PEMEX during the discussions of energy reform. What I can tell you is that as for President Calderon, the original idea was to propose constitutional reform in the energy sector. But what happened is that when Calderon approached PRI members, PRI members said no way. We're not going with you with constitutional reform. Calderon decided to pose not a constitutional but just a reform of the overall rules that don't need two-thirds of Congress. What is now the PRI going to say to the PAN? We are thinking twice and we probably want constitutional reform after blocking the 2008 reform. It's going to be tough.

The first question. What is the PAN going to do? Let me mention a couple of ideas. I think the PAN could be willing to support the PRI on some of the reforms, but in exchange they will ask Pena Nieto for some things that are aimed to dismantle the old corporatist system. This rent seeking coalition that Levy talks about a lot that is still there, the PAN I think has learned the lesson. They learned the lesson the hard way because when Fox came to power, he thought he was going to be able to govern but he found out quickly that the change in power was not enough because this rent seeking coalition was still there. I think the PAN could probably say yes, but they will be able to dismantle that rent seeking coalition. For example, you want energy reform, constitutional reform, President Enrique Pena? Why not exchange it for reelection? Reelection, a topic that Pena Nieto has openly said no way to. So that leads me to the

second question. What is Pena Nieto going to do with this type of negotiation? Or let me give another example. Labor reform. Labor reform is a very good example because as you are well aware, President Calderon proposed a 2010 reform that had two main issues. One was making it easier for businesses to hire people. The other part was to tackle some of the lack of transparency in the unions. The PRI said, no, we are not going to go with you, President, on the union part, but we'll go with you on the business part. At the end of the day, Pena Nieto decided that it was better to wait until after the election to move that reform. But now Pena Nieto is going to face a situation in which in order to garner the support of the PAN, the PAN is going to ask Pena Nieto, yes, but with the union part. So it's going to be interesting. The question then is is Pena Nieto or not willing to tackle this mantle, touch the interests and the privileges and the power of this rent seeking coalition that has been in place in Mexico for the past 70 years? Is he willing to tackle that or not? From a political science perspective, I would be a little bit pessimistic because usually no president attacks his government coalition. Usually that's the case that no president attacks his government coalition. But Pena Nieto probably will have to decide and probably will have no option but to find common ground and accept some things in exchange for those reforms. We could either have Pena Nieto saying I am not going to touch my government coalition so forget about reforms. Or we'll move reforms with our let's say legislative power, probably a working majority, and will not join forces with the PAN, but that means forget about energy reform. Or he could surprise everyone and be willing to tackle, to touch upon the privileges of this rent seeking coalition. Make your bets. I would say that is the fundamental question of what is likely to happen in Mexico in the coming years. Thank you very much.

MS. NEGROPONTE: We are now each of us hooked up at our seats and I'm going to start with three short questions. Arturo, is the privatization of PEMEX

possible and under what conditions might this happen? Chris, you focused on trade and investment, but you haven't mentioned the cost of increased security. What is it? And for Carlos, if the election results turned out to be close, what capacity for Lopez Obrador, otherwise known as AMLO, for his supporters to take to the streets and to have a quasi-repetition of 2006?

MR. HERNANDEZ: I'd also like to hear maybe Carlos's insider perspective into energy reform having been working for PEMEX. I think that the prospects for reform in the first 2 years of any administration are good given those negotiations that Carlos has mentioned. Energy reform as many know is vital for the competitiveness of that sector. The public company, the state-owned company, in oil gives the federal government most of its operating budget so energy reform has to be accompanied by fiscal reform. Otherwise the risk of the oil company having bad finances is very high. This is how the problem begins. Then you need fiscal reform so you need a second negotiation behind it. I want to refer back quickly to a point that Carlos made which I think I agree when he says that Mexico is in this transition and it's been stuck in its for 30 years. However, when I hear that someone is parked in a transition, it sounds to me like an oxymoron. Thirty years is not let's say a small amount of time, and Keynes used to say in the long term we're all dead, but I believe that this is a status quo. This is the law of the land. The only point that I would make in referring back to the question is you are looking at the potential president of Mexico and the parties as observers of this rent seeking coalition, but what is we look at them as participants? Are they not rent seeking as well? Is it a negotiation between two parties to destroy them or to get in on it? What implications does that have for the rest of Mexico or Mexican society? I think for many in Mexico, the political parties are part of this rent seeking group and it's a negotiation between them.

MS. NEGROPONTE: Thank you. Chris? Security. What cost?

MR. WILSON: It's very interesting that the security costs, the amount of their I guess it's profits that foreign multinational corporations spend in Mexico is lower than what they spend here in the United States. According to a survey done by Krul and the American Chamber in Mexico, they surveyed companies and found that security costs were somewhere around 4 percent, whereas in the United States the average is closer to 7 percent. There is a big difference between security costs for these large multinational corporations maybe having makilas near the border, big barbed-wire fences around the perimeter or security protocols. It's hard to follow the person to know who to extort even, for example. ?Versus a small mom-and-pop shop versus a medium-sized business where the security costs clearly have gone up because they are paying extortion payments in certain parts of Mexico quite regularly. I think that it's difficult to say. We still see huge amounts of foreign investment coming into Mexico right now despite the security situation, but nonetheless there is clearly an image problem and I would suspect that we would be seeing even more foreign investment were there not he security situation. It's a contradictory story. There clearly is a security cost. It's probably not as associated with foreign investment as it is with economic growth locally. I think Brookings published estimates by Banco Mayrd recently that puts it around 1 percent of GDP growth per year. That's significant. There is no doubt that that's a significant cost and there is no doubt that the next president of Mexico will have to face the security challenge along with the economic challenges, a rule of law challenge is what I would describe it as which encompasses both some of the economic issues of corruption as well as the clearly public security challenge that Mexico faces today.

MS. NEGROPONTE: Chris, thank you. Carlos? Unrest? Protest?

MR. RAMIREZ: Using again this crystal ball, I would say that I think the likelihood of seeing an event such as what happened in Mexico in 2006 is pretty low. I think the election is likely to end up being probably not 15 points, but the margin of victory of Pena Nieto is likely to be high enough to make it very difficult for AMLO to go and stage let's say a post-electoral event such as what happened 6 years ago. I think AMLO and the PRD know that at the end of the day that event, the post-election outcome of 2006, cost them the possibility of winning this election. And in 6 years they will obviously want to have a chance. Moreover, Ebrar will probably want to have his chance. So I think they are pragmatic enough, although there will be noise. I think the PRI has spent a lot of money in this election so there is going to be a lot of attention put to that. But at the end of the day, I think the PRD is going to come together and think about the future battles and the future battles are not the July 2. The future battles start September 1 when Pena Nieto proposes his first reform agenda. That's how I see it.

MS. NEGROPONTE: Carlos, clarify for the audience who Ebrar is.

MR. RAMIREZ: Marcel Ebrar is the Major of Mexico City. He wanted to be the PRD candidate in this election. At the end of the day, AMLO prevailed, but certainly he is seen by many as the natural successor of Lopez Obrador after this election.

MS. NEGROPONTE: Let's open it up now to the audience. I'd be very grateful if you'd state your name and your affiliation and have a question somewhere.

MR. WOLFSON: My name is Tom Wolfson and I'm a retired Foreign Service officer. I have two questions I'd like to ask. Carlos, at the end of your remarks you ended up with a thought that I wanted to go into more deeply. It looks like from what both you and Arturo were saying that Pena Nieto isn't really yet the head of the new PRI and that although calling his party unreconstructed would be equally inaccurate. But

judging from the poll numbers it sounds like there will be powerful forces voting for Pena Nieto who are very much in favor of modernization and increased competitiveness, introducing new winds into the Mexican political system. Is it right to see this as a conflict with old PRI structures that Pena Nieto is going to have to manage or is there a better interpretation?

The second thing I was wondering about is about a year ago I read what I thought was a rather interesting book by Jorge Castaneda which came out called "Manyana Forever" in English. I think it was published subsequently in Spanish as well. His thesis was that there are deeply seeded cultural traits in Mexico that are holding the country back from modernization and increased competitiveness. I found this very interesting, but I'm wondering how much of an impact his thesis has had on the debate within Mexico or as the debate moved on from the angle he took and has gone on in a different direction. Thank you.

MS. NEGROPONTE: Tom, thank you. Carlos, would you answer the first part, and Arturo will answer the question on Castaneda's book?

MR. RAMIREZ: You are totally right. I think there are very strong forces also that have joined Pena Nieto that want the reform that certainly think that Mexico has to quickly move forward because it is at this stage I mentioned earlier. I am fairly positive about the final outcome of the Pena administration with regard to some of the reforms. The reason why is precisely this. Pena Nieto's main economic adviser, Luis -- is without doubt a clear-minded reformist that is going to push for the reforms. You could argue that if Pena Nieto is convinced about the need for reforms, he could probably join forces with this side's more pro reforms and try to negotiate as Arturo was saying with more of the status quo, the anti-reform side. But I think it's not going to be easy. That's the main point. It's not going to be easy and that with each topic, with each reform, there will be a

tradeoff, a tradeoff where Pena Nieto will have to decide to touch upon the interests of his own government coalition or not.

MS. NEGROPONTE: Thank you, Carlos. Manyana forever?

MR. HERNANDEZ: I think Jorge Castaneda is a very valuable contributor. He was a minister in Mexico. He wrote another book with a very similar thesis of what we're talking about here, "An Agenda for Mexico," but I don't think he's a sociologist and I think as an economist myself that culture might not be an element determining behavior in Mexico. You just to see what a Mexican does when he drives from Monterrey to San Antonio. The first 3 hours of that drive have an average speed of 220 kilometers per hour. The last 3 hours have an average speed of 60 to 65 miles. That's not a culture shift that happens within 5 hours. So I can say I can speak intelligently about his book about his culture, but to me context creates behavior.

MS. NEGROPONTE: Thank you.

MR. MESETIK: Mike Mesetik with the "PBS NewsHour." How do you anticipate the new government, assuming it's a free government, is going to approach this security situation? The cynical view both here and probably down there is that they're likely to make some kind of under-the-table deal with the cartels. What do you foresee coming?

MS. NEGROPONTE: Carlos, I'm throwing that at you.

MR. RAMIREZ: The book has a chapter from Eduardo Guerrero who is certainly one of the top security experts in Mexico and I think he raises several points. Very quickly, I would say that the likelihood of the PRI trying to go to the old ways of informally negotiating although it was never formal, but in some ways it was turning a blind eye on most of the things that were going on related to drug trafficking is highly unlikely. Because things at a ground level have changed sufficiently, drug syndicates

have fragmented during the past years in such a way that it is quite difficult to envisage a situation where government can't negotiate with someone whoever that is. That doesn't mean that locally or regionally there couldn't be some governors, some municipal presidents, working in some way and turning their blind eye. But I think that from a president perspective, from an overall national perspective, that is highly unlikely. My main take is that cooperation will improve. One of the most significant problems of why Calderon has moved slowly at the end of the day although there are some improvements on some fronts, is that governors have been dragging their feet to tackle a good part of the job that is reform of their local institutions, the judiciary, penitentiary and certainly police institutions. And they have been moving slowly because politically it is not or hasn't been so far not in their main interest to do that. What I expect is that Pena Nieto will try to improve this obviously with 23 governors like to be what happens after Sunday, Pena Nieto has all the incentives to come together. My main view is that it will be a slow-moving process and that Mexico still has a long way before solving that very structural and critical problem.

MS. NEGROPONTE: David Johnson, I will be calling on you as head of INL at State and who initiated the -- proposals, but before that there is a gentleman.

MR. MAYA: Isaac Maya from Free Balance. We briefly touched on transparency and corruption being major challenges in Mexico. I was wondering given the predictions for the PRI to be the next leader what is the agenda that they have planned for the Ministry of Finance in particular in order to expand on transparency and those initiatives in order to move the government forward?

MS. NEGROPONTE: Arturo?

MR. HERNANDEZ: I will give you a more general answer than just from the perspective of the PRI winning. I want to hedge my bets in case the undecided all

decide for one person. I would say that corruption is key in the agenda. One of the candidates, Andres Manuel Lopez Obrador, the left-leaning candidate, has put corruption as the number one structural reform. I believe that in many ways that makes sense not only because you can probably save more money from tackling corruption in the federal government than with a few of the other structural reforms that people have been talking about for the government and for public investment. But also if you do make a structural reform say in energy or in labor and you haven't tackled corruption, then the fine print will be out there for reediting and you never know what you'll come out with. I'm never sure if bad reform is better or worse than no reform. I would say the next government needs to tackle corruption. I personally believe that corruption in a country is like brooming a stairway, it has to be broomed from the top to the bottom and I'm still waiting to see any commitment on the corruption from Enrique Pena Nieto. I don't have any clarity with what we know from the governors who have supported him, with what we know from people around him that he will have that as his top, that he will have a broom let's say.

MS. NEGROPONTE: I'm going to take the prerogative of the moderator to turn to a man who has tackled corruption from his office from his leadership at the International Narcotics and Law Enforcement Agency. David Johnson, where has tackling corruption worked and from your perspective of what you've seen working closely with the Mexican Calderon administration, is improvement a reality?

MR. JOHNSON: I'd say that corruption tackling has worked at the federal level and the federal law-enforcement institutions in Mexico reasonably well. Where it hasn't worked as one of your panelists identified is at the state and local level where neither we nor Mexico has invested significant resources in the programs that would be required to bring about the kind of internal affairs. Where it hasn't worked as well or worked really at all is at the state and local level where neither the Mexican

authorities nor the United States have invested significant resources nor developed significant programs. From my point of view, that's where the targets of opportunity lie but it's also where the expenditures are going to have to be the greatest both politically and economically in order to have any real impact.

If I could steal the microphone for a second to ask your panelists a question, the United States has significantly though not exclusively invested in programs that as their target if you will creating capacity to go after the cartels to provide significant police capacity, mobility, and while there has been some institutional reform support, it's mostly been focused again on targeting the cartels. From your point of view, are other things that can or should be done by the United States or other external actors or are we guilty by standards as the process goes on?

MS. NEGROPONTE: I'm focusing on our two Mexican guests, Chris. I'm giving you a pass on this because it's asking for a Mexican response.

MR. RAMIREZ: I certainly agree with that view. The question is what really can the U.S. do to help more? We know the hot issues, all the issues related to the weapons, also obviously the issues related to drug consumption, but they are more structural and they have other types of underlying problems. They are certainly more politically heated themes.

An area where certainly the U.S. can help much more is supporting Mexico in this process of reforming their local institutions. It is not an easy task, and as you are well aware, President Calderon and the Congress approved by significant law, judicial reform in 2008, that unfortunately has been moving very slowly. Although there is no magic bullet to solving the problem of security in the country and certainly this reform will not solve automatically the problem, it will certainly help in the future to tackle this critical issue. I would say that there is a lot of work to do there. States have been

lagging. Many governors have been dragging their feet also. There is strong resistance among judges, among prosecutors and among obviously police forces. That's an area where your experience, the experience of the U.S., certainly could be of great help.

MS. NEGROPONTE: Thank you, Carlos. Arturo, you wanted to add something?

MR. HERNANDEZ: I think most of it has been said by Carlos. The judicial reform is critical in this. Policing could have 100 percent effectiveness. And when the people are taken to trial they go straight back out the back door into the street. What I was going to say just to add, a comprehensive approach from both sides that includes all three branches of government I believe would be best. The experience and the resources of the U.S. are always welcome from my view in fighting this great cancer that we have right now in the country.

MS. NEGROPONTE: Thank you. We've got a gentleman up here and then someone right at the back with a large hand.

MR. ROGGENHAUER: Eric Roggenhauer with -- Monterrey. I want to raise two issues. One, in energy reform it seems that every time the specter is raised, the people who are anti-reform quickly wrap themselves in the Mexican flag and say the oil belongs to the people and that's the end of the discussion. However, the oil really belongs to the unions and to whoever partakes of the money because very little of the money goes to the people. One question would be to give every Mexican a check like other countries and state do to distribute that wealth. But the main issue is accepting that the oil belongs to the people, PEMEX doesn't necessarily have to belong to the people so the reform could be discussed in two parts, retain ownership of the oil but then set up privatization of production, exploration and distribution which would make it more efficient

than whatever government does. That would one point for the two Mexican economists to discuss.

But there is an issue politically that is raised in any forum. I spend enough time in Mexico in different states where continuity of government seems to be a problem because every time a new government whether it's municipal, state or federal comes in, everything their predecessor did goes to the trash. They spend millions changing logos, changing names. It's just absurd that talking about -- is not an issue because the previous government is taboo, but you can't talk about it. But when you have two PRI governments or two PAN governments following each other, uncompleted work remains uncompleted. Any achievements are thrown into the trash because my way is better. That's a lack of maturity that I think needs to be addressed in Mexico and I would like to hear your comments on that.

MS. NEGROPONTE: Thank you very much. I'm going to inverse. The former spokesman for PEMEX will not answer the energy question. He is compromised. However, Carlos, you will answer the question on the political reform issue for Mexico. And Arturo, since you have not been the spokesman for PEMEX, you can address the energy question.

MR. HERNANDEZ: I completely agree on two fronts. One is all of these issues like the property of natural resources, the extreme taboo around reelection, all of these things are just used by political parties to create a certain ideological simulation which does not exist in Mexico. There is no difference in the spectrum of ideologies between the parties except for what the soup of the week is or the day.

I do think that an incomplete reform of PEMEX. Let's say if you create a private company that has to operate with those heavy locks that the lack of constitutional reform -- because it's not only the ownership of the oil. It has to do with again the fiscal

burden that PEMEX has because at the end of the day what is the purpose of people having ownership of oil if as you say the money doesn't trickle down? I would say Calderon tried to follow this approach of a two-tiered reform and I don't think it works. I think we either look for Petrogras company or we go not only to the U.S., but also Colombia did a part kind of ownership of -- where only Colombians could buy stock at a discount -- could be another model to follow for Mexico.

MS. NEGROPONTE: Thank you, Arturo. Political reform. And reelection does not apply to the president. Reelection applies to other lower elected officials.

MR. RAMIREZ: Obviously that is I would say every problem or most of the problems in Mexico have part of its explanation has to do with what you mentioned which is the lack of continuity which is explained by the ban to reelect majors, senators, deputies, governors and certainly the president. I think there has been a lot of evidence put there, there are books also, plenty of them, that have shown that reelection helped to fundamentally tackle that problem of continuity. It's certainly not a magic bullet. It doesn't solve all the problems. But it helps. Imagine being a municipal president in Mexico. You have a 3-year tenure. You start your administration the first year. You start to look at what's going on in your municipality. You have the second year where you could probably do something, but by the third year you have to start thinking and saying good-bye. What type of accountability, what type of citizen link could there be between a major that knows that his political career is not going to depend on his performance but on how he deals with the party? How is he well placed or not with the president of the party or the senator or whoever, or the governor of course? Reelection should be in the agenda. The problem is that reelection the issue that the PRI is not willing to negotiate because in good part behind this rejection toward reelection I think it is the underlying

reason why the PRI is so against it is because it would tackle one of the sources of power of the party and certainly now that they will probably win the presidency, one of the sources of political power of the president. So unfortunately it is sad but I think there is no much of -- as I mentioned in my conversation, if Pena Nieto is willing to go for energy reform and if he really wants it, he probably could change his mind about reelection if the PAN asked for that in exchange for a constitutional reform. Obviously I'm not sure what the PAN is going to ask for, but it could be that.

MS. NEGROPONTE: Thank you, Carlos. We're going to take a last question from the hall, and then I'm going to have the last question so that Chris Wilson ends the panel.

MR. TORGIS: My name is Tom Torgis and I'm with the U.S. Treasury, another economist in the room so I have an economics question relating specifically to one of the slides that Christopher showed. You showed the growth in U.S.-Mexico trade and obviously these are two economies that are very cyclically linked. There are two recessions in that time span of 2001-2009. But the more interesting question I think is what the fundamental drivers are aside from the cyclical patterns that you observe in the U.S. and Mexico? And I wonder if you could comment a bit more on what you think are those key drivers particularly for the early 2000s when it was slow, and then more recently as we've seen this acceleration what you think are the real fundamental drivers behind that aside from the cyclical.

MR. WILSON: There are a number of factors that are driving trade and the economic relationship between the United States and Mexico. Yes, the cyclical factors are huge. Currency is a big one. I think the recent growth in U.S.-Mexico trade, if you look at how the peso has performed not just vis-à-vis the United States but especially vis-à-vis China, there has been over the past several years Mexico has gained maybe 20

percent, 30 percent competitiveness just based on currently alone. Then add into that other factors like the rising cost of oil which makes transport of goods from China versus Mexico a lot higher. There are a number of other factors. Rising wages in China of course vis-à-vis relatively stagnant wages in Mexico. Those are some of the factors that have brought competitiveness back to the region, somewhat back to the United States vis-à-vis China also, but especially back to Mexico. Previously in the early 2000s I think that the factors that caused the shift from high growth in trade to lower growth had to do with of course cyclical factors the recession in the United States around 9/11, but as I mentioned, I think there really is a thickening of the borders. I think that's a real phenomenon. If you ask anyone who lives in a border community if there was a change in how the borders were managed before and after 9/11, they'll absolutely tell you that there is a change. And we see through numbers that while trade has been continuing to grow, the number of trucks crossing the border is actually pretty flat which means that there is an impetus, there is some sort of push, there is a factor that's causing them to figure out ways to pack more value into the same amount of trucks, that is to say that it's harder to cross the border.

In addition to that, you had some changes in tax structure in Mexico regarding -- during that period. It's just a list of factors that drive trade. But really the bottom line is that over the years our economies have become linked together and so jointly we can try to tackle some of these competitiveness issues.

MS. NEGROPONTE: Chris, thank you. I'd like to ask the audience to join me in giving a round of applause to our excellent panel. Their PowerPoint presentations are within the chapters which are available to you. Then a final request, please, you've got it. It's yours. Not for attribution.

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012