

**THE TRILATERAL COMMISSION
2005 NORTH AMERICAN REGIONAL MEETING
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**THE IMPLICATIONS OF NATIONAL POLITICS
FOR NORTH AMERICAN RELATIONS**

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Good morning. It's always a pleasure to come back to Montreal where I attended McGill University some 20 years ago. And it's more of a pleasure to come here with my wife, who was also here a couple of decades ago.

When I did my graduate work at McGill, I suggested to my supervisor that I wanted to discuss the future of North American integration. That was 1984. My supervisor told me, "Well, that topic has no future, so why don't you discuss Mexican debt." I ended somewhat in between, discussing structural adjustment policies in Mexico.

And this time, 20 years later, we called a couple of friends prior to our arrival to touch base with them. One of them told us, "Oh, we'll invite you for dinner. Come over." The first question he asked me, "What are you here for?" and I said, "Well, the meeting of the Trilateral Commission, the North American regional meeting." He said, "Are you guys part of North America?" Like, what are you doing here? I answered, "Of course, we are." And he says, "How come I cannot dial Mexico like I dial the U.S. on the phone? Just number one, three digits, and then seven digits. I have to go a convoluted way. You guys are like Europe." He says, "I can't dial you, you know, straight."

The next step is our son, 15-year-old Juan Carlos, and our daughter, 14-year old Ofelia, came with us. Juan Carlos wants to check where he can attend a French-speaking college. I see this North American side might spruce up my son's abilities to speak the three languages. He speaks English already and he attends a French lycée in Mexico City, and he wants to learn the Québécois accent. We go to the school and, of course, he's thinking of the curriculum and I'm thinking of a tuition waiver, and I asked the principal, "Well, my first question is: I am North American. Do I get a tuition waiver?" She looks at me like *qu'est-ce que vous dites, monsieur?* This may not be relevant to North American integration, but I have to tell you that this is the crux of the matter for us.

When I read the title of the presentation I was supposed to give, my inner soul led me to read the implications of national politics for North American integration. I read that. Then on second look, I thought, it doesn't say integration. It says relations. But I wanted to read integration, and that's what I'm going to discuss in the next few minutes.

Some of the speakers have discussed the national mood and people looking for their vernacular, which is extremely relevant to describing what's going on in Mexico now. I particularly appreciated last night's presentation by the Russian ambassador to Ottawa because he talked about a lot of things going on in Russia that are also going on in Mexico.

First of all, after 71 years of one-party rule, many Mexicans believed that overnight the fact that a president from a different party would take office meant that we would become a full-fledged democracy,

a capitalist economy, and prosperity for everyone. Of course, that didn't materialize. The expectations were very high. There are a few people who are disappointed because the expectations were not met. To a good extent, what has happened, what has emerged from that disappointment, is that to an increasing extent politics is seen with cynicism and it's seen as the matter of a privileged few.

Here, I'm talking about left and right, the whole political class, the whole political elite and the economic elite, which in Mexico means a lot more than in Canada and in the U.S. because it's a much more polarized society and much more polarized economy. So the elites are increasingly seen by the majority of the people as a distant, careless privileged few.

What compounds this to a good extent is the fact that our small and middle-size businessmen, some of them decided that they were better off selling their companies to foreign investors. We lost a good chunk of our entrepreneurial class. I'm talking about in the immediate aftermath of NAFTA. That has begun to change and slowly evolve towards the construction of a new entrepreneurial class, and there are people here that are much more qualified than I am to discuss that. But that's a symptom of what happened.

Now, talking about the national mood. When we had the 71-year, one-party rule, people would say that they wanted to move towards democracy. Once we moved into democracy, the aspirations of people slowly evolved and during the NAFTA years, we were told that we had to tighten up our belts and make an effort and qualify, show our credentials to make it to the first world. So we tightened our belts and we didn't make it. What went wrong? Of course, the answer differs according to whom you ask. The reform didn't go far enough, Mexico didn't do its job internally. I've attended many meetings after the 10th anniversary of NAFTA, and every single time we are told, "You guys didn't put your house in order; you didn't do your homework, so after you do it, then come back and talk to us."

Now we have the election, as it was mentioned, on the first Sunday of July 2006. The candidates, the main three parties, are running on platforms that really do not differ much. But one of them, the frontrunner, the former mayor of Mexico City, has taken a very successful strategy of saying to the voters, "If you elect me, I will give you cash. I don't promise government programs, I don't promise a grand vision, I'll give you cash." Of course, that is very successful with the voters.

That has been the case in Mexico City, and we're wondering what the response of the voters will be come 2006. Where is he going to get that cash from? Well, our country is deeply, deeply addicted to two drugs: oil money and remittances. We're living off oil money and remittances.

The federal government lives off oil money because it represents one-third of fiscal revenue. But we tax PEMEX—that's beginning to change—so much that the government has postponed time and again a fiscal tax reform, an oil tax reform that would make tax revenue grow to a level that's comparable not to Canada, not even to the U.S. which is the haven for the elimination of taxes, but to Central America. We're below those standards.

We have become used to living off remittances and oil money, but several voices have been raised to say that we have wasted oil money because we have not planted it in infrastructure, in human capital investments, and we have not developed the migrant-expelling regions throughout the country.

This is what the three governments propose for North America. This is the Waco Declaration, the Security and Prosperity Partnership, which is the grand vision that people are not really interested in. I'm not going to make a further comment on that.

When people are asked if they favor further North American integration, what most Mexicans—and this is not the elite, this is the public—are really thinking is, "Is that going to translate into my being able to

visit my cousin in Chicago, yes or no?" That's the bottom line: "Am I going to be able to see my daughter who's toiling in a factory in LA in the garment district, or not?" That's North American integration for most Mexicans.

We're discussing security, we're discussing the economy, but people are very pragmatic in their approach. They say, "If North American integration means greater labor mobility, let's go for it." Whereas our elite are much more wary of what is going to happen to our national treasures, mainly oil, and the elites are much more reluctant to enter into regional agreements to discuss a security perimeter, to discuss energy needs.

So the public is much more pragmatic in that respect. But the irony of all of this is that when we discuss immigration in Mexico, when the media in Mexico discuss immigration, they always label it as the imminent immigration agreement with the United States government. And when our consuls or ambassadors from abroad, especially from the U.S., tell us, "Wait a minute, the headline here in the U.S. is domestic reform of the U.S. immigration laws, they're not talking about a bilateral agreement, they're talking about the reform of their immigration laws as a domestic issue." But 105 million Mexicans want to read, as I misread the title of the presentation, an immigration agreement. That's not the case at all, but in our expectations, we have some who used to say that if there will be an agreement in the near future, it might as well come soon.

For politics, my question on how policymaking takes place on Parliament Hill and in the prime minister's office has a lot to do with how policy is made in Mexico and how this is reflected in the federal budget. We have a fixation in Mexico from the years or the decades in which a lot of businesses were government-owned, and we still believe that the federal budget has an enormous impact on the economy, that it's the major driving force of the economy. That is no longer the case, but we think that is the case.

We have an annual fight over government appropriations. That, of course, happens in every single country, but in our country, it happens around government subsidy. Now, there are subsidies for the rich and subsidies for the poor. That's in every country, I imagine, but the fight takes place on a yearly basis because the congress debates the budget for next year in November. The debate is taking place now. For years, since the crisis in 1994, we have allocated some \$5 billion every year to pay the banks for the IOUs that the government gave them to salvage them in '94. The banks now are in fantastic health, they're in very good shape, but we keep subsidizing the banks, the private banks with public funds, and at the same time, there's a big debate on what to do about subsidies to tortillas, to basic foodstuffs.

The debate goes on, and the conservatives call the leftists populists because they want to subsidize tortillas and then the leftists call the conservatives elitists because they want to keep on paying the subsidies to the private banks. One more recent example is the subsidy to the price of natural gas, which has just happened in Mexico. It promises to become another big issue.

The bottom line of what I'm trying to convey to you is that we are not yet a capitalist economy in the Weberian sense of the expression. We do not have the products and the ethics and the spirit of capitalism. We are an economy and a society in which the accommodation of elites takes a much more important place than the operation of the market.

If we held the Donald Trump show *The Apprentice* in Mexico, I guess the show wouldn't last very long because the number one question is: how do you get rich? And the answer in Mexico is, get a government concession, get a government contract, or get a monopoly. If you get both a government concession and a monopoly, then you're sure to make it to the Forbes list. So the function and the operation of the market are still not very mature, and the political market is the same.

I'm going to wrap up here. I just want to say that the impact of Mexican politics for North American relations, I cannot define in one phrase, but I am quite sure that this is not going to become a campaign issue. The number one campaign issue is "What are you going to give me? What's in that for me?" for the voters who have grown increasingly skeptical about grand visions. In fact, after the belt tightening, somebody in Mexico City wrote graffiti on one of the walls along the Periferico which declared, "We don't want reality. We want promises again." Thank you.

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