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The Honorable Ernesto Zedillo
President of Mexico

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Questioners: E. Gerald Corrigan, Chairman
International Advisors, Goldman Sachs
Former President, Federal Reserve Bank of New York

Sir Dennis Weatherstone
Director, Bank of England
Former Chairman, J.P. Morgan and Co.

Introduction

Chairman John M. Hennessy

Ladies and gentlemen, good evening, and welcome to the 347th meeting in the 88th year of the Economic Club of New York. Tonight is truly a special time for us at the Economic Club. First, as you can see from the huge size of the audience, there has been tremendous interest in tonight's program. We're also very pleased and privileged to be joined tonight by the Council of the Americas and the U.S.-Mexican Business Committee. The reason, of course, for the extraordinary interest is that while the U.S. and Mexico have long had a very, very special relationship, the passage of NAFTA represented in my opinion truly an historic watershed. NAFTA gave and gives concrete form to our mutual recognition that the economic prosperity and the social progress of both our countries are and will be inextricably linked.

In recent years Mexico has moved boldly forward to introduce a modern, competitive, market-based economy. Realistically this could not be achieved without a few bumps in the road. And as we're all aware, a major financial crisis hit Mexico at the end of last year. During the past ten months, President Zedillo and his administration have had to grapple with the severe economic and social impacts of that crisis in ways that would bring the nation swiftly back on the path of economic growth on a political and social progress.

In this, Mexico has been exceptionally well-served by having a president thoroughly trained in

economics, including a PhD at Yale University, who also has a keen feel for the needs and the desires of his country's people. And with your permission, I'd like to just mention two short anecdotes.

Several months ago when I was in Mexico City, I had the privilege of personally delivering to the president our invitation to tonight's dinner, and there was a discussion on the event and the date. And there were a couple of choices. One was the 50th Anniversary of the U.N. coming up in a couple of weeks and the other was to address the Economic Club and the business community. And the president turned to the Foreign Minister and said, Mr. Foreign Minister, why don't you look after the U.N.; I'll take care of the business community. (Laughter) And the second part of that was I handed him a list which appears on the back of your program of the Honor Roll of speakers who had spoken here over the last 88 years. And as you know, they range from William Jennings Bryan to Winston Churchill to Woodrow Wilson. And in his characteristically modest fashion, the president said he would feel quite honored to join such company, but that he wasn't sure he deserved to be part of it.

Well, over the past eleven months, President Zedillo has had to cope with a combination of economic crisis, social unrest, and armed insurgency – any one of which would have tried the skills of a Wilson, a Churchill, or even a Solomon. He has done so with wisdom and great courage. And I'm certain that our very distinguished roll of past speakers would indeed be honored to know he had joined their ranks just as we are honored to have him with us tonight.

Ladies and gentlemen, the very distinguished President of Mexico, the Honorable Ernesto Zedillo. (Applause)

The Honorable Ernesto Zedillo

President of Mexico

Ladies and gentlemen, I want to thank the Economic Club for their generous invitation to speak to this very distinguished audience. Let me tell you that this is a good evening for Mexico. It is because I come here with the representation of a great country to meet you. It is too because just before I came in, I was informed that a Mexican professor is sharing this year the Nobel Prize in Chemistry. (Applause)

I come here today to share with the business and financial community of one of the most vibrant cities in the world the truth about Mexico – the difficult as well as the good. I come here today with renewed confidence, with a sense of hope and pride in my country and our citizens who are making contributions that most believed were impossible, and building the foundations of a recovery that many believed was unattainable.

I come here today to let you know how Mexico is meeting its challenges every day, making tough decisions, and achieving a steady progress. We are in the process of building a sound basis for sustained growth and at the same time we are taking decisive steps to extend the ideals and

the practice of democracy and justice in our country.

Last December, we started to confront a financial storm. Over the past ten months, we have acted with determination and the path ahead becomes clearer each day. So does the path we have left behind. In retrospect, we can see that the roots of the crisis were planted over a long period. Let me be blunt. We should have identified the financial dangers earlier. We should have tackled earlier the sharp decline in our domestic savings because foreign savings cannot be anything more than a supplement to the domestic financing of investment. The government should have made an orderly adjustment and put essential safeguards in place sooner.

This is the reality. And in this administration we have never sought to downplay or disguise it. Instead, when the crisis came Mexico's government reacted with responsibility and resolve. We made the hard decisions and put in place a comprehensive and indispensable program of fiscal and monetary restraint and reform.

We could not change the past, but we learned from it. We also learned that in a world economy, no nation stands or falls alone. So in the name of the Mexican people, let me acknowledge the contribution of the United States. In the face of great risk to the international financial system, President Clinton acted decisively and his policy prevented what could have been a hemispheric or even global crisis which might have inflicted great damage to the United States itself. He displayed the kind of courage that is the hallmark of true international leaders. We shall always

place our national sovereignty as our highest principal, but I welcome the partnership we are building which at its best is based not on what one country can do for itself, but on what together we can do for each other.

We learned another crucial lesson about the demands of an increasingly inter-dependent world. We must strengthen our multilateral structures and the safety net of global financial stability. Otherwise, what is past for us will become prologue for other nations.

But for Mexico, the present offers hope for the future. Our economy is showing signs of a strong, effective, and permanent adjustment. Of course, the job is not finished, but the foundation has been laid. I can say confidently that the threat of financial collapse has ended. The best evidence is the behavior of the foreign exchange and money markets during the past few months. Of course, we are still experiencing the normal fluctuations of a free market. But the long-term trends point to a stable exchange rate freely determined by the market. The inflation rate has not soared out of control, but declined significantly compared to the first months of the year. Inflation, unfortunately, reached a high of 8% last April. But fortunately, it has improved significantly and we have had a monthly the average of 2% in August and September. And of course, we should see that inflation rate to decline farther in the coming months.

Our fiscal accounts have improved also significantly. And during the first eight months of the year, primarily as a result of increasing exports, our trade balance accumulated a surplus of \$4.5

billion, in sharp contrast with the deficit of more than \$12 billion that we had for the same period in '94. Similarly, overall external debt short-term, both private and public, has been reduced considerably. For example, our dollar index short-term public debt, tesobonos, has been cut from over \$29 billion in December '94 to \$2.5 billion today. In another crucial development, we have raised our foreign exchange reserves from \$3.5 billion in January to \$14.7 billion today.

The early success of our economic policies have been instrumental in securing Mexico's access to world financial markets. In less than six months, Mexican firms, financial institutions, and government have regained access to international capital markets. While the debt crisis of '82 locked Mexico out of these markets for seven years, it is the confidence on the underlying strength of our economy today that has hastened a return and bolstered our stabilization program.

As we move into the new year, the gross domestic product will begin to grow over its level in the recent past. This will be the result of more stable financial markets, the downward trend in interest rates, the debtors relief program, an upturn in home building, a program increase in public investment, and further increases in exports and direct foreign investment.

During '96 we will keep a balanced budget, and as in '95 we will also have a trade surplus. So I say to you, as I have to the citizens of Mexico, we have turned the corner. We will stay the course. Mexico will become what it must be – a high growth economy. We have the potential and the determination to accomplish it. We are opening up new opportunities for private

investment, both domestic and foreign, in areas like transportation and distribution of natural gas. In order to do that, we have to reform one law and we have to introduce a totally new law, which by the way, is being approved this week by our Congress.

We are also promoting private investment in railways. In order to do that, we have to promote a change in our constitution, a totally new law in the railroad sector and a new regulation that is about to be published. We are also promoting more than ever new investment in telecommunications. We also have a new law built under a very new and modern perspective and we expect really this to be one of the booming sectors in the years coming. We also liberalized our banking sector. One of the first reactions that we had in front of the crisis was to send an initiative to our Congress so that we could allow higher foreign investment in our banking system. And we are also privatizing the secondary petro chemicals industry now in the hands of Pemex. As late this month, we will be publishing the basis for the elicitation of the first set of plants to be sold by Pemex.

As President, I intend to be personally involved in the historic effort to deregulate our economy. Over-regulation strangles growth. Deregulation can unleash the power of free markets and the creativity of our people. As President, I will also promote a tax reform and major changes in the pension system and the housing finance system to encourage domestic savings.

As President of Mexico, I reaffirm our adherence to NAFTA and our resolve to make the most of

its potential. Free trade is the only lasting path to economic growth. All of us, therefore, in both our countries have a grave responsibility to the future of our economies and of this continent to resist any return to a time of protectionism, suspicion, and isolation. Let us dispel right now the doubts about the mutual gains and lasting importance of NAFTA.

Unfortunately, I have seen articles in front pages recently misstating the facts. Mexico today will purchase four times more in goods from the United States than we did ten years ago. This year, even in the middle of a very strong recession, we are importing more from the United States than in 1993, the last pre-NAFTA year, the peak year in our foreign trade before NAFTA. And let me tell you, during the first semester of this year, the Mexican economy fell almost 7%, and in spite of that, we are importing more from the United States. That's free trade. That's job creation. And that's the way we should keep in the future. In 1993, in the January - July period, we were importing, we had imported \$26 billion from the United States. During the same period of this year, they reached, those imports, almost \$30 billion.

For Mexico, the road back from the financial crisis has been hard, let me tell you, and often steep, but we have never stopped in the face of obstacles. This has been a time of destiny for all Mexicans who have shared the burdens and made the enormous efforts to prevent the destruction of the extraordinary economic foundation laid during the last decade. Now, the time is coming to reap the benefits. We are poised for recovery in 1996. And with recovery we will experience wide and lasting benefits that transcend economic statistics – for only growth can give people the

chance to work, to earn a better life, and to hope for a better future for their children. For the truth is only as the economic tide rises, can we effectively stem the tide of illegal immigration to your country.

Economic growth is the only effective, lasting response to the challenge of undocumented migration. Most migrants don't want to leave their country or their culture. They do so because they feel they have to. We must, and we'll give Mexicans a genuine possibility to improve their lives by following the paths of education and employment, not the paths towards the North. We are working with your government to find new ways to fight undocumented migration and the criminal trafficking of individuals. But we will also insist that immigrants are first of all human beings who have fundamental human rights which cannot be breached.

Economic reform, as vital as it is, is not enough. Nor will any recovery be sustained or secured unless it is built on the solid foundation of a vibrant democratic society. There is a lesson the world has learned in this era of global change. Prosperity depends on a democratic society. So, on my inauguration day, I dedicated my presidency to renewing and advancing farther the hard-won promise of democracy in Mexico for which our forbearers struggled in another decisive time. To honor that legacy and fulfill our destiny, we must demand of ourselves an authentic commitment to honesty, accountability, truly representative government, and equal protection of laws.

We, as people, have to improve our material conditions, but the challenge facing us involves more than material things. The challenge facing us demands and depends on a political process where there is real competition between ideas, parties, and candidates. In my first year in office there have been local elections in ten Mexican states. These electoral processes have been conducted under the close watch of the citizens, and in most cases under new and significantly advanced electoral legislation. In many states, highly competitive and peaceful elections and results that fully correspond to votes cast already form part of a political life characterized by democratic standards.

I have called for a definitive and comprehensive Federal electoral reform that can create a democratic normality – I call it that way – where election after election, the process is so clearly and honestly conducted that no one will contest the results. I trust that soon we will begin working on this with Congress and with all political parties. We are transforming the political institutions of Mexico. We are deepening our democracy and strengthening our party system. Not just in this administration, but more important, for the future, for the future generations. That is why we cannot and will not stop the electoral reforms. The exercise of power by governments we elect must be based on the ideal of checks and balances. Sharing power with the legislative branch does not weaken the presidency as some in Mexico tend to believe. I am convinced that that strengthens our democracy.

We have done that from the start of my administration. We have not imposed answers. We are

committed to build consensus in a process of consultation that reaches beyond Congress to include business, labor, workers. This was not merely a temporary process to carry us through the economic crisis. It is a framework that will endure and which spans the whole range of issues.

I will soon propose legislation which implies, by the way, a reform in our Constitution to strengthen the legislative branch auditing power over government and the Federal budget. You cannot have accountability if government departments only have to account to themselves. Checks and balances require safeguards against the neglect of duty or the abuse of power.

Democracy also depends on an independent judiciary, the right to justice, and the assurance of the rule of law. That was the purpose of the first Constitutional amendment which I proposed and Congress approved. We've broadened and guaranteed the power of the Supreme Court to review laws and to void those at conflict with the Constitution. We set new standards of independence, integrity, and professional competence for all Federal judges at every level. We will see to it that basic rights of life and liberty are not only written into law, but enforced in daily life.

At the same time, we are implementing a new nationwide policy on law enforcement and public safety. This policy envisions a systematic and far-reaching attack on delinquency and organized crime. I have just submitted to Congress a bill to establish a mechanism to coordinate federal, state, and local efforts and put a national public security system on firm legal footing. We are

arresting and prosecuting offenders no matter who they are. Power and position should bring with them a greater responsibility to obey the law, not the privilege of breaking it with immunity. We are sending the message in case after case that corruption is as intolerable as a street car crime.

One of the great challenges we face, one of the great dangers is the drug traffic that is a plague of modern life. We will not surrender our country to the evil and epidemic violence of the drug trade. We will do our part to cut off the supply of drugs. We ask the United States to do all that it can do to curb the demand. This is a role in which we must be allies and in which both nations must lead in forging a new and global alliance to succeed.

We have just launched a major new program to crack down on drugs across the border – at the points of production, on the routes of transportation, and anywhere there is consumption in Mexico. At the heart of this program are legal steps to prosecute organized crime and money laundering. To add to the legal arsenal at our disposal in this battle, I will soon send to Congress for its consideration and approval a new Federal law against organized crime.

For Mexico, this year has been a period of great change in a short time, across the broadest range of issues that any of us have ever known. Change has been crucial in maintaining social peace and political stability, particularly in the face of economic difficulties. Problems that only a year ago seemed to some to be beyond our grasp, today are in the process of being solved through a

dialogue between the government and the interest groups.

I have reaffirmed my determination to work hand in hand with Mexican citizens representative of all ideological persuasions, of all social groups from all parts of the country to build a democracy that we want for the 21st century. Our commitment to democratic change inevitably brings with it a more intense political debate within Mexico. Let no one be surprised at that. It is a normal aspect of democracy and it should not be misconstrued as crisis. Openness should not be taken as hesitation. Debate should not be confused with disorder. Both constitute vital and vibrant aspects of the democratic process.

These changes are the winds of renewal. They are neither unexpected nor unwelcome. We, in this government, have consciously chosen and consistently directed this process. The changes are part of a natural, lawful, rapid, but orderly transformation. We are setting the pace of an advancement, not running up to catch up. A more open and vigorous political life is the right road for Mexico. I deeply believe that democracy will strengthen, not weaken, a government. Democracy reinforces leadership. Democracy encourages new ideas and greater progress. A few months ago, in any discussion like this, we had to talk primarily about the problems. Today we can talk of progress and of the prospects of a sound economy and a thriving democracy.

So on behalf of the Mexican people, I invite you to come to our country, to invest there, to manufacture there, to buy, to sell, to engage in commerce and finance, and to work with some of

the finest workers in the world. The men and women of Mexico have demonstrated their character and their enterprise during the good times as well as during the difficult times. They share your belief in the reward of hard work. It is an honor to be their president. As your colleagues who have invested in Mexico will tell you, it is also an advantage to work with them. Their hopes are at the heart of our economic policy, for I believe a good job is the greatest social program of all.

Finally, let me speak of a view that we have in Mexico, a view that I am sure we share with you, we share with the business community of the United States, a view of basic values that both our peoples share. So many of you stood by us at the outset of the crisis. You understood that no economy, no industrial revolution, no great change ever proceeds on a single uninterrupted line. The downturn was deep but the underlying fundamentals are sound. In business, you know well what counts is not just the quarterly report. It's the long view. That is our view as well. It points to recovery and prosperity for Mexico, and to a good next quarter and many years of growth ahead.

The values we share as peoples are an even stronger tie – a tie in common belief not just mutual advantage. Central to both Mexico and the United States is a faith in family, community, and hard work. Both nations began with the struggle for independence and the dignity for every individual. Both nations have a dream of liberty, justice, and opportunity. So as I look at our two countries, as I think of our differences of culture and history, I also see the basis for a new

understanding between us. Even when issues divide us, abiding ideals bring us together. We are neighbors on a great continent, partners in hope, and peoples who are striving side by side for a great economic prosperity and for a great dream of freedom and justice. Thank you very much.

(Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN JOHN M. HENNESSY: Mr. President, I'm sure I speak for all of us, we thank you deeply for that inspirational and passionate view into the future of Mexico, and I know we're going to leave this dinner tonight with renewed and confirmed confidence in your leadership and in the future of Mexico. Now as is our custom, we'll pass to the period – it'll be a bit of a letdown after that speech, frankly – no matter what questions our questioners ask, there's nothing that can measure up to that – but we're going to ask our two questioners now to enter into the question period. Mr. Gerry Corrigan, currently the Chairman of the International Advisors of Goldman Sachs, and the distinguished President of the New York Fed. And our other questioner is Sir Dennis Weatherstone, ex-Chairman of J.P. Morgan and currently a Director at the Bank of England. So I'll ask them now to... Gerry, would you ask the first question of the president?

E. GERALD CORRIGAN: Mr. President, let me also congratulate you on your remarks which I thought were substantive and splendid. You already have answered a lot of the questions I had in mind, but let me mention for starters the following. You were very generous in your gratitude to

President Clinton and the United States for the rescue package earlier this year which is quite understandable given the size of the check that was written. But the fact of the matter is, as you know, that there remain many people who seriously question the wisdom of that here in the United States in the context in which NAFTA is under renewed attack. Some of them are in front of you tonight. What would you say beyond what you've already said, Mr. President, to help them better understand the wisdom and the necessity of that effort on the part of the United States?

THE HONORABLE ERNESTO ZEDILLO: Thank you Mr. Corrigan. Fortunately, I can see right in front of me a very distinguished gentleman, the Minister of Finance of Argentina, Mr. Cavallo, which I think could support my views at this moment. (Applause) Well, what happened in late December, early January, was unprecedented for the international financial system. Suddenly a dramatic change in expectations and conditions changed dramatically. Mexico had been receiving investment; a lot of it short-term financial investment, over the previous six years. Perhaps as much as \$100 billion in investment arrived into Mexico during that period. Suddenly, because of the macroeconomic circumstances, because of political factors, that money started to leave the country. Some people have argued that once the crisis started, we could have done many other things that would have avoided what we had to do later on. Well, I think that once the crisis was triggered, we were facing a real solvency problem. That's when I called President Clinton and I told him, I must tell you, Mexico has a big problem, but I'm also afraid to tell you, I am also afraid that I have to tell you that perhaps your country and many other countries will

have a problem. What is happening in Mexico, from my point of view, is a threat to the stability of the whole financial system. Unfortunately, not too many days after that call, there was evidence that we were right. The effects were starting to be felt in Argentina, in Brazil, even in Chile, even in Europe, and even in the Far East. Pretty soon President Clinton and myself agreed that we were perhaps facing a threat, a systemic threat to the financial system, and that something very strong had to be done. And that's when President Clinton's courage came in. He had the vision to support Mexico because he is a good friend of Mexico, but I think his primary reason, and he was right, was his concern about his own country, about the stability of the whole international financial system. I think that persons that fail to see that are short-sighted. We live in a true global economy where you can move money – and I see a lot of well-known faces working in that field – instantly. And those people know that if no effective, rapid, drastic action had been taken regarding the Mexican case, perhaps now we would be going through a major tragedy in the international financial system. On the other hand, it is true, Mexico borrowed a lot of money from the United States, but it is also true that we will pay back every single penny because our economy has the capacity to repay. So I say that money lent to Mexico was an investment and it will prove to be a very good investment. (Applause)

SIR DENNIS WEATHERSTONE: Mr. President, I'd like to continue Gerry Corrigan's question just a little more, particularly as you said Mr. Cavallo is here. And that is to say that when you decided to keep the floating exchange rate, and I'd like you to let us know whether that continues to be your plan, or do you eventually envisage moving to some kind of band or a crawling peg,

but more particularly perhaps you could tell us how you contrasted your selection of a floating exchange rate with the currency board which Mr. Cavallo knows more about probably than many others?

THE HONORABLE ERNESTO ZEDILLO: Well, let me tell you that from an economist's point of view regarding Argentinean's characteristics, the tremendous effort that has been made, we just admire Argentinian economic policy. They have done the right thing and we admire the effort of President Menen and Minister Cavallo during 1995. I think it has been extraordinary the way in which...(Applause)...they have kept the discipline and I think Argentina, as well as Mexico, will succeed. Now the circumstances that we have now are different. Mexico, after the outbreak of the crisis and the situation that we have known in '95, has as its best choice, as its best policy decision, to have a freely floating exchange rate. I repeat, that weighs to the particular Mexican circumstances, once the crisis started. I think that today it would be a mistake to try a different exchange rate regime for Mexico. I don't know when we are going to change that. I don't see it in the near future. When conditions have changed, in a very transparent way we will have a discussion about it. But right now I see no reason why to consider a different exchange rate regime. We expect that through freely floating exchange rate regime, our exchange rate, as we reduce inflation, as we continue to have healthy public finances, as we continue to have a monetary policy that is, rightly so, very restrictive, the exchange rate will stabilize. We will not mess around with the foreign exchange market. It's freely floating and I don't see in the near future that we will change that system. (Applause)

E. GERALD CORRIGAN: Mr. President, approach this from a slightly different vantage point. You and your colleagues have shown enormous courage in facing up to the problems earlier this year. But one inevitable manifestation of that is that your economy has plummeted. So what I'd like to raise with you is the following. That knowing Mexico reasonably well, it seems to me that the social strains in large segments of your country must at this point be quite enormous. And that raises the question in my mind as to whether there is any danger that those strains and pressures could produce a political backlash against the largely progressive policies of your administration and the prior two. My question to you, Mr. President, is that danger real and even if it's not, what do you intend to do in the face of your fiscal constraints to make sure it doesn't become real?

THE HONORABLE ERNESTO ZEDILLO: Well, thank you Mr. Corrigan. Several considerations. One is the experience of '95. I can hardly think of more difficult conditions than the ones we have endured in this year. In the first semester of the year, GDP fell 6.8%....5.8%. It's good to have your Minister of Finance nearby. (Applause) The open unemployment rate which was 3.2% last December grew to...he doesn't know...I know...to 7.5% last July. And that's terrible. In no time in our history we have had such a dramatic deterioration in our economy – I must be frank with you about it. Yet if you look at the record of Mexico during these first ten months of the year, I can tell you, fortunately we have had social peace. I trust that as we move into '96, as we move into mild but significant recovery, the risk of having any social unrest will

dissipate. I cannot neglect that my people is feeling bad. They are suffering, and they are suffering a lot. But let me tell you, the discipline, the dignity, the effort that the Mexican people have shown in this crisis has been simply exemplary. And I don't have any reason to believe that that's going to change. Of course, we need the recovery and we are working to get a recovery in the Mexican economy because we need to create the jobs. We need to create the opportunities. And I am very confident that we will achieve that in '96. Now I also think that part of the answer has to do with the political system. Some people somewhere criticize me because very early in my administration I started to do things a little bit differently – politically speaking. In the very first days of my administration, I went to my Congress. No president of Mexico had gone to Congress except for one day in the year, to the big national State of the Union Speech. Well, I decided to go to Congress, to sit down there and to have an open dialogue with members of Congress from all parties. Very early in my administration, I called the leaders of all the national parties and I told them we have to work for a better democracy in Mexico – I believe in a strong party system – and you are the key players in that new party system that we want to have in Mexico. So let's have dialogue. Let's have negotiations towards a definitive electoral reform. It hasn't been easy. Sometimes we move forward. Sometimes we stop. But the fact is that since day one we have had a permanent dialogue and we have had minimum understanding on many issues. And I believe, I trust that that has taken some pressure out of the system. And since I intend to continue pushing strongly for political reform, I also think that that will give us further leverage in the future. So I cannot assure, Mr. Corrigan, that nothing negative in that respect will not happen in Mexico, but judging by the experience of '95, I think that the odds are in our favor.

Thank you. (Applause)

SIR DENNIS WEATHERSTONE: Mr. President, I think if there is one thing that's on the minds and of concern to people in the audience tonight and the market in general, it was mentioned by you right at the beginning of your speech, is the question of return to growth in Mexico. And I wonder, even though I believe the budget comes on November, the 15th, if you could give us some idea of what you expect growth to be in 1995, 1996? It's a several part question. What sectors would you expect to see the most growth in during 1996? And I suppose, as it will rely to some extent on government intervention, could you give us some idea of what you think the costs of government investment will be to provide that growth?

THE HONORABLE ERNESTO ZEDILLO: Well, thank you Mr. Weatherstone. Well, I truly believe that the engine for growth cannot and should not come from the public sector. Certainly we expect very modest recovery in public investment in '96. We have to make an effort within the constraints of the budget because we are lacking infrastructure in Mexico. So I have instructed Mr. Ortiz to make a magic budget in which the budget is balanced but yet public investment grows in '96. (Laughter) But definitely, the real, the true, the permanent, the sustained engine for growth has to come from private investment. We are confident that the adjustment that we have endured during '95, the debtors relief program that we are putting into place and that was started about two months ago, the little by little change in expectations, and very importantly, the very positive reaction that we are already restoring indirect foreign

investment will give impulse to private investment in Mexico. We are also expecting sustained dynamic increase in exports. Perhaps not at the rather spectacular rates that we have had in '95, our base is now enormous. So we don't expect, you know, to continue having such an enormous export growth rates, but still all of our projections point to significant increases in our exports. Nowadays, in '95, our exports have become one-fourth of our GDP. So you can imagine that even a modest increase in exports will fuel economic growth. What GDP growth range we expect? Well, Mr. Ortiz, who is always, you know, avoiding the risk of making wrong forecasts, says 3%. I say, well, anything between 3 and 4 will be fine. (Laughter) Thank you.

E. GERALD CORRIGAN: Mr. President, as a natural extension of Mr. Weatherstone's question, I think it's probably fair to say that for many observers in Mexico and elsewhere when you strip away the problems of the day, the underlying characteristic of the Mexican economy that seems to be a source of a lot of the difficulties is the over-consumption, under-saving phenomenon. We're very good at that here in the United States, by the way. But focusing on Mexico for the moment, I, and I think a number of other observers, feel that one of the few ways that that problem might be attacked on a systematic, long-term basis is through fundamental pension reform in Mexico which is an enormously difficult political problem. Nevertheless, could you share with us your thoughts as to your administration's views on, first of all, the desirability of pension reform as a vehicle to get at the under-savings problem? And how aggressively you and your associates are willing to push it despite those obvious political problems?

THE HONORABLE ERNESTO ZEDILLO: Well, thank you Mr. Corrigan. You are right. I think that if we could, if we were forced to single out a sole reason of the Mexican crisis, I would say that that was the very sharp decrease in our domestic savings rate. Back in 1988, Mexico was saving 22% of its GDP. Last year in '94 we were saving less than 16%. Almost 7 points of GDP were lost in domestic savings in only six years. And for me, that is a fundamental cause of the situation, of the very adverse situation that we have endured during '95. That is why in our economic policy program which we made public last May we attached the biggest importance to the promotion of domestic savings. And within that context, we announced that we will be proposing legislation which we are now preparing now in order to introduce a new pensionary system – a system by which we will transform the now universal pay-as-you-go retirement system into a system of individual accounts for each worker, for each employee, in which we are going to consolidate not only the contributions to the Social Security system but also the contributions to the Housing Fund that workers have in Mexico and also the Small Individual Account that was introduced a few years ago. I think that it will not be that politically difficult, Mr. Corrigan. I think that we explain to people what it's all about and all of the benefits, it will be understood that this will be in the benefit of the workers and it will be in the benefit of the country as a whole. I also think that we have to work harder on our tax system. In fact, I think we have already taken one of the most difficult steps regarding our tax system. Last April, in the middle of the crisis, we raised the value-added tax which is a tax that taxes directly consumption. We increased the general tax rate, the value-added tax rate in 50%. In fact, I believe, I tend to believe that one of the reasons why the domestic savings rate trailed so much in Mexico during

the last few years is because back in 1990, there was a tax reform by which we decreased the general value-added tax in 50%. So what we have done now is to move back to the old rate. But it is obvious that in the future when circumstances allow it, we will have to introduce more explicit incentives to savings and investments into our tax system. Thank you. (Applause)

SIR DENNIS WEATHERSTONE: Mr. President, the problems that were seen late last year were largely those of capital outflow. So not surprisingly, the attention now is on capital inflow. Could you tell me which countries Mexico sees providing in the future the most foreign direct investment? Has this changed since NAFTA? And do you see an increase as a result of NAFTA in South American trade and investment flows?

THE HONORABLE ERNESTO ZEDILLO: Well, thank you Mr. Weatherstone. We, of course, want to recover some of our previous capital sources. We intend to rely mainly on domestic savings, but foreign savings has to be a complement of domestic savings in order to have a satisfactory rate of investment and of GDP growth. I would expect that most flows should come from the traditional sources of Mexico – the United States, some European countries are also very important, Canada to some extent, and to a lesser extent Japan. Probably this picture would not change significantly in the coming years. But what we do intend to do is to push for freer trade with other regions of the world. Our experience, let me tell you, has been very positive. The first free trade agreement we had was not in NAFTA. Actually it was with a South American country. It was with Chile. It has been working now for almost three years, and the experience has been highly positive for both countries. That is the reason why we have been pursuing other

agreements with other Latin American countries. We already have them with the so-called G3 group, Venezuela and Colombia. We have it with Bolivia. We have it with Costa Rica. And we are working now with other Central American countries as well as with Ecuador in order to have free trade agreements. In fact, let me tell you, that we have started conversations with the European Union to have a broad agreement but within that broad agreement, a sensible objective might be to have a free trade agreement. If that is the case, and we will know that in '96, then we should have very positive expectations about European investment in Mexico in the coming years. But right now there is no doubt, our main partner, both in trade and investment is the United States. Thank you. (Applause)

CHAIRMAN JOHN M. HENNESSY: Mr. President, in spite of the fact that we have 1,900 people, I'm sure we could stay here all night, this intensity and the interest in your answers, but I think our custom is to finish on time. And on behalf of everyone, I want to say this has been a very inspiring, terrific evening for all of us. Thank you so much. (Applause)