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439th Meeting
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The Honorable Enrique Peña Nieto
President of Mexico

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William C. Dudley: Thank you. I'm Bill Dudley. I'm the Chairman of the Economic Club of New York and President and CEO of the Federal Reserve Bank of New York. I want to welcome you to the 439th meeting of the club in our 107th year, been around longer than the Federal Reserve for example. The Economic Club of New York, as you all know, is the nation's leading nonpartisan forum for economic policy speeches. More than 1,000 guest speakers have appeared before the club and have established a very strong tradition of excellence. I'd like to recognize the 218 members of the Centennial Society who have contributed to ensure a sound future for the club. We're honored here today to hear from the President of Mexico, Enrique Peña Nieto. He was sworn in as president in December 2012. Prior to his election as president, he was governor of the State of Mexico, a position he held from 2005 to 2011. President Peña Nieto started in public service at a young age where he served at several positions in the government of the State of Mexico. He then served in the state legislature after being elected as a representative. He holds a B.A. in law and a Masters in business administration.

Mr. President, the floor is yours.

The Honorable Enrique Peña Nieto

Thank you very much for this kind invitation to be in the Economic Club of New York. And if you allow me, I will switch to speak in Spanish because I do understand, I believe, English, but I don't speak so fluently as I would like in English.

First of all, I would like to thank Bill Dudley for this kind introduction before I take the floor.

I'm very glad to address all of you distinguished guests. I would like to thank Terry Checki for his contribution to have this lunch together with all of you. And specifically, I am appreciative of this great opportunity to share with you what is going on in Mexico, a neighboring country of the United States, not very far from here in geographical terms. We have been neighbors and our friendship dates back many, many years. We have made through this friendship possible greater levels of integration and a trade relationship that is every time more intense and more relevant.

I would like to share with you that Mexico is one of the countries that buys from the U.S. Well, we are the third most important destination of your exports and the U.S. is for Mexico our top destination of our exports. I'm not going to delve into many of the features that give an account of the intense relationship that Mexico and the U.S. has, but in this forum, in this framework I would like to share with you the current developments of Mexico.

I took office in December 2012 as has been mentioned already. And the day after, the day after I took office, it was possible before being sworn in, I was able to set up a dialogue, an agreement that is known in Mexico as a Pact for Mexico in which the three top political forces were part of it. Every group with a different ideology, right wing, center wing, left wing, and along with the country's administration, we together decided to work on an agenda that would transform the country. Most of you must be aware of it. And you, I am certain, you have learned how upon this path we were able to pass and approve at Congress important structural reforms that if you allow me, I would like to touch on them briefly.

Some reforms have the purpose of broadening rights for Mexicans, and with this purpose in mind the educational reform was passed. Its main goal is to ensure better quality education for this generation and the generations to come. The new Writ of Injunction Law which is a legal instrument that broadens the rights for the citizens to defend themselves from the use of the powers of authority and a National Code of Criminal Procedures that standardizes nationwide the rules to prosecute an individual in any of the states of Mexico.

In regards to a different set of goals, we have made reforms to strengthen our old institutions. Let me remind you that Mexico is a country that in the last decades it has consolidated its democracy. We are a plural, diverse country. And due to this, we were able to materialize the Pact for Mexico. And upon this pact, new reforms happened in order to strengthen our democracy. Allow me to share with you that not many countries can say, as Mexico can say, that in the last 80 years it has had peaceful transitions with political stability every change of administration, every six years. And this is the case of the last eight decades. And out of the reforms that have been passed to strengthen our institutions, we have reforms for political processes and electoral processes. It has many components in it but let me touch on the most important here.

We have an autonomous general attorney's office. It was not the case of the previous attorney general's office. Now upon this, ___ laws will be approved in this legislature. But in the constitutional framework, it is set forth to have an autonomous attorney general's office

independent from the executive branch. And secondly, there is now a possibility to create a coalition government. And this has in mind the possibility to incentivate (?) potential agreements to have full endorsement for all of the reforms that will take place in the future.

Another of the components of this reform is to have a transparency component. It creates a completely new transparency system. It creates an autonomous entity that before we didn't have, and that will ensure transparency in every branch of government. We'll see transparency in every state of government, at a federal and at a state level as well.

And the third goal of this set of reforms is this. Of course, this has been the ultimate challenge for Mexico in the last few decades. For 30 years now, we have had an economic growth on average that ranged around 2.6 percent a year. Of course, a poor and insufficient level of growth to create the jobs needed and to take advantage of all the opportunities that Mexico can take advantage of due to its strengths.

I'm not going to elaborate but due to its location, the free trade agreements undersigned with many countries, all of these strengths have not been taken advantage of to the full. Therefore, we needed structural changes in order to boost economic growth in our country. And with this in mind, with this purpose in mind, the labor reform was enacted that makes the labor market more open and it has different mechanisms to hire employees and also incentivates (?) the hiring of the youth, of women, and we have an economic competition reform as well. It creates an

autonomous institution empowered to sanction monopolistic practices and also it tries to boost competition. We also have a reform in telecommunications to have more competition as well and to have more participation in this sector. It opens the door to more economic stakeholders and to provide the users more and better services.

Our financial reform, it's different from the tax reform, the financial reform meant that more than 30 laws were amended in our country. And by this, to some extent, it will ensure that the credit granted by the financial system in our country will be extended and more credit will be offered, more competition will happen between credit institutions. We're trying to have more affordable credit supply at lower rates and the development bank of the state is mandated specifically to create instruments to provide funding for specific sectors that otherwise would have never had access to credit. A tax reform that is oriented to give more strength to public finances in order to address all the social demands – our population is growing – for there are more demands. And we want to be less dependable (?) on oil-related income.

And the last reform, probably the most important one without a doubt, this reform provides Mexico a new opportunity to grow and to have better social development. And what I mean is the energy reform. The energy reform meant breaking with a model to exploit our hydrocarbons, our natural resources that lasted for more than 60 years. And Mexico somehow was behind other nations that dared to make important changes. Therefore, this is a landmark reform, the energy reform, that would make the Mexican state, by holding ownership of its hydrocarbons, will open

up to the private sector to participate in its system, to exploit better its natural richness in order to develop other sources of clean energy sources that to date we have not developed fully in our country. And this is going to be a path that would lead us to a sustainable growth. We will have different rates of growth, of course, a better pace of growth in my country.

And lastly, let me tell you what we're doing. After the structural reforms were passed, it is a fact that the approval of these reforms in itself is not going to trigger change. Changes and the benefits of these reforms to be seen by the Mexican society will happen at a gradual pace and step by step we will make them happen. Therefore, today, the will of the government is to have an efficient transparent execution of the reforms.

We have decided to ___ this process, to put the reforms in action to make sure that all of the benefits derived from these reforms are seen and materialize as soon as possible. And all of these reforms have specific deadlines for their execution. And we have seen breakthroughs in every area. For example, in the year of the financial reform we have defined new financing mechanisms for agriculture, for women, better rates. We have more competition between financial institutions now.

And allow me to make reference to the energy reform. There is no doubt, as I have noted already, it is the most important one out of this set of reforms, because it will give the country a better energy industry. In the preparation of the reform, in the preparation process last August,

we had the Round Zero, and that was where we defined all the reservoirs and the fields that will be exploited by Pemex. Those fields will be owned by Pemex. And this is how we have decided to have 2.5 million barrels a day for the next 20 years for the country. And based on its current capacity, the capacity that will be developed, this will give Mexico a better growth rate in the area of oil production. But at the same time, we have released preliminary decisions on the fields and reservoirs that would be considered to be part of Round One that will be disclosed next year, at the beginning of next year. The idea is that the private sector can get ready and learn about the opportunities that will open up in our country to invest in the energy sector.

Our second action, the actions that have been disclosed already besides this new approach to the areas that will be opened up for Round One, we have identified the sectors that would execute the energy reform. There are different public institutions – some are autonomous – that were created for this purpose to execute the energy reform. The National Center for Energy Control, this will be the entity that will regulate the energy market. The National Center for Natural Gas Control, also the Independent Boards. We will have advisors that would be part of Pemex and the Federal Energy Commission, also the members of the Energy Regulated Institute, and the national hydrocarbon institutions. All of these appointments that might seem to be a long list of appointments had to be presented to Congress for their approval, before arriving to New York to be part of the United Nations General Assembly and have the opportunity to meet all of you, all of these appointments were ratified and approved by the Mexican Senate.

These are the steps that have taken place with one purpose in mind – to accelerate the execution of all of the reforms. And it's worthwhile noting the following: Just 17, 18 years ago it was unfathomable to have a broad consensus-based agreement to make structural reforms happen. All of you, probably some of you, who follow the steps of Mexico probably you have been presented with several proposals before and were aware of all of the previous attempts to make these reforms happen. But the reforms in the past did not happen and I have said it already, I have recognized the maturity that we see in Mexican politics. It's stakeholders, it's lawmakers, all the political forces have reached a certain level of maturity that along with the commitment that they have with our country and leaving aside its ideologies or paradigms, they decided to compromise and make the reforms a reality.

Let me say again that we're working together to make sure that all of these reforms are executed properly. Mexico is undergoing a landmark moment in history and that is Mexico's resolve to change, to prepare a new legal scaffolding that would pave the way for economic growth that would make sure that more and better jobs are created. And therefore, the future of Mexico in this path looks bright, and it is up to the adequate and rightful execution of these reforms.

Alongside of the reforms, I must note as well that we have performed another important activity and that is a broad program that we're working on in the area of infrastructure. We're working on a quite ambitious project that foresees important projects specifically to make Mexico more productive and more competitive.

Let me touch on four of the areas that we're working on. The first one, before I go through the whole list, let me tell you that we are planning to invest \$520 billion. That is the level of ambition that we have in mind for this investment project. We have envisioned this project. We will implement it through my administration. These are projects that demand also the private sector to participate. It will be shared projects between the government and the private sector to provide the funding needed. This is what we have in mind. Let me touch on the four areas that we're working on.

We're extending our roads and highways. We are planning to build 3,000 kilometers of new highways to communicate different regions in the country. We want better communication. We're going to double the capacity that we find in our ports and we will make Mexico a top high value logistic destination. For the first time, we hope to have a high speed train in the Americas. We're in the project between the capital city and Queretaro alongside many other infrastructure projects in the area of mass transportation and the top metropolis in our country. The same happens in the valley of Mexico, Guadalajara and Monterrey.

We have announced to have a multi-year program that of course it will demand more time than my administration will last, and that is the construction of Mexico City's international airport. And of course, this airport will serve the whole country. This will be the gateway to Mexico and it will move about more than 120 million passengers a year.

Just to mention the top infrastructure projects, as I have noted we have set for this a substantial amount to be invested. And we're working on these projects and of course alongside we are executing structural reforms that Mexico has agreed. Therefore, I am very interested to share with you good news. These are good news for Mexico, but this is as well good news for the world that turns its head to those places where investment can happen in order to do more business. And Mexico is a reliable destination, it is a secure destination. There is legal certainty. And all of these reforms will make more investment happening, from domestic investors and foreign investors in the areas that I have shared with you.

And finally, I must say that the execution of all of these reforms are based on an environment where we are listening to success stories that have taken place in other corners of the world because Mexico in this arena, it's the first time that it ventures into the creation and implementation of new models for its economic development. And therefore, it is of the utmost importance to learn from success stories, to learn from the expertise of people more experienced in this field so together we can do a more efficient job and to execute all of the structural reforms that I have mentioned. And the invitation is open. It's open to all of you. If you're interested in joining one of the sectors where major reforms have happened, we're open to learning from your expertise. And we're taking other countries' success stories and we will always be open to hear from you, the experts, in different fields. For Mexico, and for the administration that I represent, it will always be a fruitful experience to learn from success stories from other countries and places in the world so Mexico can implement structural reforms the best way possible. I'm

appreciative of this space and I'm very grateful for having the opportunity to share with you our experience and to share with you this transformation that Mexico is going on. We are your neighbor country to the United States. We are a friend to the United States. And we want to build together the strength we need, the competitiveness, and the high levels of productivity needed in North America. Thank you very much.

QUESTION AND ANSWER PERIOD

WILLIAM C. DUDLEY: I think we all...that was a very compelling speech. So thank you very much for your remarks. As is our custom, two of our members have been selected to question you. Bill Rhodes, sitting down there, former trustee of the Economic Club and senior advisor to Citigroup. And Terry Checki, good friend of mine, trustee of the club and former executive vice president of the Federal Reserve Bank of New York. As you know, both Bill and Terry have extensive experience with Mexico. So Terry, if you could ask first.

TERRENCE J. CHECKI: Thank you Mr. President. It's an honor to have you here today. And it's particularly gratifying for those of us who have worked with Mexico for a long time to see the success that you're enjoying. You've outlined for us the very ambitious program of structural reform that you've successfully enacted. The question is now implementation, as you yourself said. Thus far you've been able to rely on a group of key individuals at the federal

level, your administration, to effectively push forward the reform process, very skillfully I might add, and you were far too humble. I'm sure there are a lot of people in this audience who would like to hear just what was done differently to get this through the Congress. No single party in Mexico has had a majority in Congress since 1997. And yet you managed to do this in a very, very smooth and efficient manner. That's impressive. Now the program of implementation moves away from the federal level and it's very dependent not only on the federal level but also on states and municipalities. How do you ensure that you have the operational capacity to effectively implement the reforms that you so skillfully legislated? And what are the risks?

THE HONORABLE ENRIQUE PEÑA NIETO: Thank you very much for your question. And let me tell you that undoubtedly what we have done differently in Mexico was actually to wish for a nation fully represented in every political group. We needed to find the way to achieve what Mexico failed to achieve in a couple of decades, from 1997, when the climate that Congress and the composition of the Congress left it very clear that not a single political party had a majority enough to push constitutional or legal reforms forward. And based on that particular moment, as I said during my speech, Mexico needed a certain level of maturity and this happened through the years. We had to wait until we consolidated, in political terms, so that made it happen. That made the agreement happen. It is quite a remarkable one. This resulted in the Pact for Mexico and we were able to draft a road map to foster progress and development for our country. For most of the eleven reforms that I've mentioned, we had to build a consensus. The support was almost unanimous. And in others we received the support of the majority, but

at the end of the day in every single space we decided to create an extensive debate between political forces. Probably what made the difference was the actual will, the wish to make things different and to balance up the momentum that we have. But we knew that if we kept on doing the same old thing, we will achieve the same old results. If we wanted to have more economic growth, more development, it was fundamental to make adjustments and that was exactly what happened.

You asked a second question. What is the challenge? And I've described the challenge in my speech. How do we make sure that the execution of these reforms actually results in the benefits expected for the population? Therefore, we have been stepping up the pace of the execution. That is why we're interested in learning from other people that have gone through the same. Therefore, we are keen on learning from all the expertise needed to draft the policy needed to execute all of these reforms. Therefore, we are open. We don't want to close that, and to an idea that we are doing what could be considered a novelty. No, we are open to learn from success stories that in other places have very positive root. I'm fully convinced that this is the spirit that prevails in every branch. The state authorities are willing; the municipal authorities are willing to execute the reforms. I believe that, that would be beneficial for the actual execution of all of the reforms. Of course, it is the role of the federal branch and all the autonomous institutions that have been created to execute the reforms; we have to make sure that this happens in the most efficient way. I am fully convinced that today, that I appear before you, I can say that we have made progress in the execution of most of the reforms. Of course, the reforms have their own

deadlines. We have very specific deadlines. And in some cases we have been able to comply with the deadlines before time. We are stepping up the pace of execution. And I would like to wrap up by saying, in Mexico there is optimism. We are confident. We are confident on the capabilities that we have in this administration. And we are confident on Mexico. Mexico decided to make adjustments, to change the model, and we decided to change what needed to change structurally. And we're confident on the capacity of Mexicans to efficiently execute the reforms.

WILLIAM R. RHODES: Muchisimas gracias, Señor Presidente, por su presencia aca hoy día y su excelente discurso. (TRANSLATION: Thank you very much for joining us and for your excellent speech). When I was in Mexico earlier this year and I had a chance to talk with you briefly, I found that the business community was very positive about the many structural reforms that you've discussed today, including the opening of the energy sector which you championed and amazingly enough got Congress to approve. However, the biggest area of concern I found among members of the private sector, and this would include a meeting I held at Ibate (?) with 400 graduates, half from Mexico City, the other half were videod-in from Guadalajara, was the area of seguridad, security. And I know you've taken some steps in this area. And since it is so important, maybe you could say a few words about what you are doing in this area which has been so difficult for your predecessors.

THE HONORABLE ENRIQUE PEÑA NIETO: Thank you very much. Allow me to say the

following. First of all, let me say in very clear terms that for the government that I head, the topic of public security is a top priority. From the beginning of my administration, when I took office I clearly defined five main goals that we're working on. Of course, the reforms are part of those five goals. And if you allow me, we decided to have a peaceful Mexico, peace of mind for Mexicans. That includes a Mexico with quality education that reverses the situation of poverty that many Mexicans live. We have paved the way in the reforms to accelerate our economic growth in the most sustainable way possible for the upcoming years. And we want to see Mexico as a globally engaged country. Let me say in very clear terms that security is one of the top priorities of my administration. And let me tell you, addressing your question, that in the area of law enforcement, we have implemented changes and we are seeing the results. The official figures that come from autonomous institutions that measure the number of murders and other types of crimes, every figure from the National Security Council and civil organizations that are concerned about security in Mexico, all of them agree that the number of murders and the crime rate in our country clearly is showing a downward trend.

Today we have cities, regions of the country, that were stigmatized and were fingered for the levels of crime seen before, and now a remarkable change is seen, specifically in the border region with the United States and cities like Ciudad Juarez, the metropolitan area of Monterrey, just to mention some. All of those have seen remarkable changes and they have seen a drop in the cases of violent crimes, that it ranges to 60 to 70 percent on average. In the states of the border region, on average violence has been reduced by 40 percent.

And all of these results are very clear that we are walking the right path, that we have targeted the efforts of my administration to address specific regions in the country, therefore we have set up a policy that applies, the whole country divided into five regions. And the results speak for themselves. Results are encouraging. And in very clear terms we can say that we are on the right path to bring the levels of violence down. This year, 2014, in contrast with 2012 when I took office, there is no doubt that we have seen a remarkable drop, practically 29 percent in the number of murders perpetrated all around the country. I must insist these figures; these results are encouraging, but are not enough still. Yes, these are clear signs to confirm that we're on the right path. We are making adjustments where needed. But it is clear that this is an ongoing task and of course there is a firm decision to go all the way to the end to provide peace of mind to Mexicans because that is what they deserve and demand. I'm very glad to share with you that the results so far are encouraging, do show a sensible improvement in the area of security, and I hope that this is the path that we continue to walk and we maintain this downward trend and we'll reach the goal set at the beginning of my administration so Mexico can go back to the optimal level of security and peace of mind for all Mexicans.

TERRENCE J. CHECKI: Mr. President, while we're on the topic of difficult questions, let me raise the question of immigration and mobilization along the border. We know that there's been paralysis in Washington on this issue and that your administration has been working with individual states. Would you be kind enough to tell us about those efforts, your efforts with

Arizona and California and Texas? And also there's a second piece to this question. We all are familiar with the influx of immigrants from Central America into the United States. This must also be putting a tremendous strain on Mexico, and I'd be interested in hearing your views on that as well.

THE HONORABLE ENRIQUE PEÑA NIETO: On addressing your first question, Mexico on repeated occasions has stated, my administration has said all the sympathy that we have for the reform made in the United States. With all due respect with this country's sovereignty, Mexico is sympathetic with this project. It is based on a full recognition and does justice to all those who have been part of this great nation. They contribute to its development; therefore we endorse this project from where we are. We understand that this is a domestic policy issue. But for that purpose, let me tell you that we are sympathetic with it, we're supportive. And we believe that all the road blocks that have been on the pathway to pass a reform are sold (?) in order to make the reform happen. In my humble opinion, it does justice to all of those members of this great community that, yes, they are irregular, they might be illegal in terms of their stay here in the United States, but let me tell you about accompanied minors crossing borders, we are working in strong collaboration with Central American countries, Honduras, Guatemala, and El Salvador to set control mechanisms to have more presence in the southern border of our country. And by this we will be able to have more certainty and serve all of those who cross the country for a variety of reasons. And we need to have more control over these crossings. We have set a policy to set up checkpoints in the southern border all the way to the Tehuantepec isthmus that

covers the space that we have set for these control mechanisms. And even when we have set up checkpoints, and even when we are in close coordination with Central American governments, we do get to the northern border with the United States, we still get minors, we get migrants that, for a variety of reasons, or probably due to lack of information, they apply for a legal stay in this country.

What Mexico has done for unaccompanied children is to have more services available for them. We have specialists. We have experts that are in charge of serving the needs of unaccompanied migrant children. We have set up a system of shelters that are part of the Mexican Institute for Family Development, the DIF. It is a federal institution with state presence as well. We are building shelters to provide specific care for unaccompanied minors and we are creating mechanisms to send them back to their countries of origin. But in the meantime, their needs are served. They're provided food, health care is provided, and they are accompanied all the way back to their home countries.

And let me share with you the Mexican stand about this issue. You cannot blame the minors in the attempts they made to reach better living. We cannot blame it on girls and boys, that they just do it out of pleasure or because they intentionally want to cross the border. Sometimes they don't have the right information. Sometimes criminal organizations abuse them. They misinform them. And they encourage minors to cross the border. They are promised that they will reach a better place and they will have a better standard of living. Therefore, the

government should be responsible vis-a-vis this phenomenon. The government should address this issue and my administration should not criminalize minors. We have to support them fully. We have to provide them all the legal services they deserve, all the legal services that they need, because at the end of the day we're dealing with boys and girls, that they are left orphans. Sometimes we only see this phenomenon through the eyes of an approach, a governmental approach, but we need to build rapport. We have to understand what a boy or a girl is undergoing. They are trying to get to a better place to fulfill themselves and we have to understand all the hardship and all what they have to go through to reach that place where they are promised to reach a better future. So this is a responsibility that we governments must take on and Mexico is doing its share. Thank you very much.

WILLIAM C. DUDLEY: Thank you Terry, and thank you Bill. And thank you President Peña Nieto. The next formal meeting of the club will be a dinner at the Hyatt on October 8 for Governor Kuroda of the Bank of Japan. But before that, on September 30, our former chair Roger Ferguson will speak at a Members Only Breakfast. Have a good afternoon everybody.