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REVIEW OF LEGAL DEVELOPMENTS IN MEXICO: 2000-2001

LIC. MIGUEL JÁUREGUI ROJAS*

Many important issues currently face Mexican society, the Mexican public sector and Mexico in the international arena. These issues can be divided into three parts: an economic scenario, a political scenario and a social scenario. However, as will be illustrated by this article, all three scenarios are interrelated.

THE ECONOMIC SCENARIO

In order to bring to light recent concerns about the Mexican economy, I have taken an informal personal poll of those whom I consider to be "in the know." I have spoken with officers of transnational companies that belong to the American Chamber of Commerce as well as those that belong to the Mexican Council of Foreign Trade. While these people deal extensively with international transactions, they were also able to draw upon experiences from their own personal and corporate lives.

Nearly everyone I spoke to voiced concerns about deflation. This issue is worrisome for three reasons. First, prices have not gone down in Mexico for the past twenty to thirty years. Therefore, Mexican businessmen face the initial challenge of comprehending what can be done to adjust company costs to the realities of market deflation. Second, workers must come to grips with deflation and recognize that salary increases, which were nearly automatic in the past, cannot continue to be so. Collective bargaining agreements, such as the Volkswagen negotiations, have become disastrous for Mexico's future. There, wage increases exceeded ten percent, or fourteen percent including benefits. The danger is that if such labor agreements become the benchmark, they could be problematic as our economy struggles to move forward. Third, deflation has created a problem with personal income and, therefore, with consumption. The economic slowdown is not only driven by the recession in the United States, but also by our own situation.

Deregulation was also seen as a problem across the board. According to many investors in Mexico, the lack of proper deregulation increases costs and creates unneeded problems in managing business. Deregulation was attempted during both the Salinas and Zedillo administrations. Currently, we have a new Secretaría de Economía, Luis Ernesto Derbez Bautista, who proposes to put forth a

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comprehensive, negotiating style of deregulation that would be used across the board in the Mexican government. Hopefully, this form of deregulation will prove to be more successful than its predecessors.

Additionally, financial sector reform is much needed from the standpoint of securities and the movement of capital. Financial reform has already paid dividends in Mexico. Some Mexican nationalists are not pleased that Citibank now controls the main bank in Mexico or that Spanish interests now own the other two largest banks. However, the globalization and internationalization of the banking sector will finally achieve what is most important for consumers: lower interest rates and the availability of credit, neither of which have been present in Mexico for a long time.

Tax reform is a very important step for Mexico, but is one that has been stalemated for various reasons. First, the primary issue is whether the Value Added Tax should be applied across the board. The second issue is the basic tax philosophy debate, which centers around whether the purpose of tax reform should be to collect more taxes or to achieve a more level playing field that would allow companies to achieve better profits and to increase investments. The tax reform stalemate will be discussed further below.

Another concern deals with the unique status of natural resources. The oil industry, for example, is an integral sector of the Mexican economy. Oil, oil products and natural gas are governed by different rules and different constitutional mandates than are other industries. The principal debate centers around natural gas because it plays such a vital role in the generation of electricity. The alternative to natural gas in this realm is coal, which has significant disadvantages from the environmental point of view.

Natural gas comes in two forms: associated and non-associated. Associated natural gas derives its name from two sources: it is "associated" with petroleum since it comes out of the ground and it is "associated" with the constitutional mandate in that it can only be exploited by Pemex. By contrast, non-associated natural gas may not be subject to the constitutional mandate and may be open to exploitation by the private sector.

If the constitutional mandate does not cover non-associated natural gas, then the regulatory laws covering oil can be amended to make such gas available to the private sector, just as was done with the laws controlling the transportation and distribution of natural gas. These amendments are absolutely necessary if Mexico wants to attain an agile and world-class petrochemical industry. In the past, similar reforms have proven to be successful, including the official differentiation between secondary and primary, or basic, petrochemicals. There is no reason why analogous reforms could not take place again. Some have presented the idea that non-associated gas should be subject to the Mining Law, since it could be considered a mined substance. If the distinction could be made between non-associated gas and associated gas or oil, the Mining Law might prove to be another avenue for reform.

With natural gas free from restrictive regulations, its availability for the benefit of basic secondary petrochemicals for use in electricity generation, motor vehicles, home consumption and the like would become more efficient. Rather than using the Houston channel price, which is subject to tampering by speculators, a price standard could be achieved in Mexico for the benefit of the Mexican economy.

Clearly, the debate over non-associated natural gas is an important concern for Mexican businessmen.

Finally, agricultural issues are also an important component of the economic scenario. The expropriation of the sugar mills was merely the tip of the iceberg. For over thirty years, we have neglected the economies of agriculture, the social behavior of agriculturists and the public policy of agriculture. This is so despite the very substantial reform of Article 27 of the Mexican constitution regarding the *ejido* and how the *ejido* is to be handled. These reforms modernized the law such that it may now be considered meaningful to both the *ejidatarios* and to others. Unfortunately, the education of the *ejidatarios* has continued to lag behind. The uneducated people were not brought along with the changes in the world of business. Left without land, they have returned to poverty worse than ever before.

This government must address agricultural issues. Although we have begun to do so, we have yet to address some of the most important aspects. Agriculture must be for the benefit of the farmers, for the self-sufficiency of Mexico and for the growth of Mexico. I believe we will move in the right direction. In the opinion of those I have consulted at the Ministry of Agriculture, the reform should begin with the expropriation of the sugar mills and move forward from there, working to achieve financial autonomy in the agricultural sector and to improve the education of farmers so that they have the ability to enter into joint ventures and expand agricultural opportunities. This was the goal of the Salinas administration's amendment of Article 27.

THE POLITICAL SCENARIO

The political scenario hinges on the statesmanship of the Mexican president and on his popularity. President Fox has been able to maintain greater than seventy-five percent popularity in the polls. Vicente Fox is an aggressive, intelligent and well-meaning politician. In the 2001 State of the Union address, we saw a new version of President Fox. No longer the cowboy in a rodeo, nor in campaign mode, he is a statesman. If he fails to be a statesman, he will hear about it from his opponents who will not allow him to rally the support of Congress or to stand up internationally, unless it be for purely cosmetic purposes. President Fox understands this reality. To the extent his statesmanship increases, the political transition becomes complete.

However, the political transformation is not yet complete in Mexico. The *Partido de la Revolución Institucional* (PRI) does not yet realize that it is the main opposition party in Mexico and that it should begin to behave like an opposition party. Instead, the PRI behaves as if it does not know where it is going. To the extent the party does not understand its current role or does not understand that there are political alternatives, the PRI is not being socially responsible.

On the other hand, the *Partido de la Acción Nacional* (PAN) does not realize that it is the party in power. It does not understand that as the party in power, it should be helping its president push through legislation. This is due in large part to the fact that there is some dissension between the wonderful personality of Vicente Fox and that of the other people in command of the PAN. President Fox has been asked numerous times whether he believes he can operate the country with the PAN. His answer has always been that he will count on the good will of the people and of his

party and that he will use the political powers at his disposal to do what is right for Mexico and for the people of Mexico.

Mexico is still in a period of transition. The *Partido de la Revolución Democrática* (PRD) is negligible, primarily because of its orientation. I disagree with the PRD's policies because the party always seems to take the populist route, the give-everything-to-the-people route, no matter where it comes from. Moreover, the PRD is always out to stalemate the President, to criticize him and to do away with anything that makes sense. For example, have you ever heard of a mayor who would decline an offer to have an international airport in his city that would serve as a major international hub for travel in the Americas and for most east-west travel? The mayor of Mexico City used environmental concerns as the excuse for opposing the airport, even though environmental impact studies from the National University showed little negative effect. In essence, the PRD has rejected what could be the principal source of growth for Mexico City and has effectively impoverished the capital. Additionally, nothing has been done about security in the city. Mayor Cuauhtemoc Cardenas has helped to end corruption simply because he has wonderful ideas. He believed the directors and undersecretaries of the city were overpaid, so he reduced everyone's salaries. He is a populist who does not have a direction for his party. All he cares about is how he is going to get elected president. He has promised one thing, however, that I hope he stands by. He said that if, within three years, the people of Mexico City do not approve of what he has done, he will quit. I wish him well.

The *Verde Ecologista* Party decided that it was going to withdraw its support for a democratic union between the PAN, President Fox and itself. *Verde Ecologista* is in a crisis to the extent that it has become apparent that this is something of a family business. People who believe in green ideas and environmental protection do not like being used for family reasons. As a result, the *Verde Ecologista* is experiencing a crisis in its command, which will force the party to take a definitive stand on what exactly its objectives are to be.

As previously stated, the law-making ability is effectively stalemated, meaning that issues such as the energy law and tax reform have yet to be resolved. The airlines are one of the few industries that have received any sort of real attention from Congress. The Instituto para la Protección del Ahorro Bancario (IPAB) has a controlling interest in the Corporación Internacional de Aviación (CINTRA, S.A de C.V.). CINTRA, S.A de C.V. is a holding company which has controlling interests in the two main Mexican airlines, Aeroméxico and Mexicana. Initially, the discussion centered around antitrust principles, which seemed to dictate that it was unlawful to have only one airline since it would have a relative, if not absolute, monopoly on Mexican airways. In its wisdom, the Mexican Antitrust Commission decided to split the airlines and to separate them from Cintra S.A. de C.V.¹ Pursuant to this decision, IPAB determined that it was going to sell the airlines directly in order to recover some of the money related to those assets. Eventually, Congress found out about the proposed sale and a law was proposed by the head of the Flight Attendant's Union and —this is amazing to me — signed by a former

1. See León Elizondo Castro, *Landmark Cases Related to Proceedings by the CFC for Monopolistic Practices*, 9 U.S. MEX. L.J. 85, 86-90 (2001).

Justice of the Mexican Supreme Court. This law stated that air transportation would come under the exclusive control of the Mexican government, effectively creating a state monopoly. Obviously, this law has no future and will hopefully not be passed.

The important result of all of this is that the PAN and the PRI finally exercised some good judgment. They decided that instead of taking the draft too seriously, which President Fox would have likely vetoed, they would discuss the entry of civil aeronautics into public policy. Recently, the Secretary of Communication and Transportation, Pedro Cerisola y Weber sent out a draft public policy as to how the Mexican air transportation system should work. Currently, the draft is being revised by all interested sectors. Hopefully, comments and revisions will get back to the Secretary in a timely manner and within a few weeks we will have what will be known as the Mexican Public Policy on Air Transportation. This new public policy should create a more free market in which two airlines will compete. It is my hope that these airlines will connect with international airlines and U.S. airlines and will create hubs in Mexico that are not necessarily right across the border from Texas. In short, public policy should be directed in a way that will make the air transportation market a more level playing field.

Another issue that has been addressed by Congress involves whether it would issue new regulations dealing with the generation of electricity. The issue immediately entered a stalemate, creating a constitutional crisis. Currently before the Supreme Court is the question of whether the president can issue regulations that go beyond the scope of a law or what the legislature has authorized. I believe President Fox will win the issue, which would result in much broader regulatory authority for the executive. As an aside, it is interesting that this issue was effectively ignored until the need to stalemate President Fox arose. In order to ease this omnipresent tension between President Fox and Congress, he must behave more like a statesman.

Finally, the deepening of NAFTA is another important component of the political scenario. Many company executives are eager to expand the treaty. However, if the Mexican Congress reviews the treaty, it will likely be struck down. It is apparent that the Mexican Congress would like to work with the U.S. Congress for the benefit of the two countries. President Fox and President Bush are trying to work together, despite voices of protectionism from workers in the United States. The economic crisis has brought additional criticism, with some calling for the closing of the border and other drastic measures. On the Mexican side, the PRD, which to me is a great embarrassment as a Mexican, wrote a letter to the U.S. Congress, complaining about Mexican domestic problems that have arisen because of NAFTA. This is inexcusable behavior. The United States needs Mexico as a trading partner. We both need Canada. We need the world. We should work in WTO terms and NAFTA terms as well for the free trade of the Americas.

THE SOCIAL SCENARIO

One of the principal social issues plaguing Mexico is that of security. Why can we not go out to the movies without our children fearing assault or kidnap? Why can we not fix the basic security needs of our people? The most logical solution to the security problem is for us to enter into a social pact. The social pact has three

components. First, we can no longer be ruled by organized crime. Second, we can no longer stand for the non-transparency of authorities. And third, we can no longer stand for uneven standards of justice for the privileged. When this occurs, security will follow. Of course, this must not be idle, idealistic talk; serious measures must actually be taken.

Additionally, President Fox recently announced the creation of the Mexican version of the FBI. Hopefully, its agents will get the necessary tutoring and it will be successful. If we can create such an enforcement agency and combine it with a responsible justice department, we can clean up the judiciary and strengthen laws so that those who have defrauded Mexico are brought to justice.

Labor, unions and worker productivity are also integral parts of the social scenario. The private sector has voiced concern about the productivity of Mexican labor. With regard to the *maquiladoras*, Mexican workers are quite productive in terms of value added or manual labor. Overall, however, Mexican workers are not productive in real terms or when compared to labor in other countries. This productivity gap could be overcome, in part, if Mexican workers were given proper training. Additionally, they need to understand both how to be competitive and that they are in jeopardy of losing their jobs to foreign competition, such as China, if they do not change their way of thinking. Fortunately, the labor unions are less aggressive now than they used to be; however, they are trying to become more aggressive. Foreign investors do not care to unionize because they believe that they treat their workers appropriately. Ultimately, the future of this issue will depend upon changes in unionization and labor reform.

Another concern is job maintenance. Mexico has lost, in net terms according to government statistics, approximately 225,000 jobs. Those who have lost their jobs are very worried about what is going to happen since Mexico cannot afford a safety net for unemployment. With no insurance for unemployment, poverty increases, which leads directly to an underground economy that is almost as large as the real economy and to crime. Both of these lead to deficiencies in the actual consumer market, the supply of goods and the distribution of goods. They also contribute to security issues.

The *Ley Indígena* is also a daunting issue. In overly simplistic terms, the *Ley Indígena* was an agreement by Congress, not an actual law, which officially recognized indigenous peoples and their rights under the constitution. The agreement stemmed from a visit to Congress by Mr. Marcos.² Although Mr. Marcos's visit was, in itself, a divisive issue, President Fox's subsequent criticism of the *Ley Indígena* as being insufficient has proven to be more so. Fox's statements have added credibility to the voices of some of the tribal chiefs in Mexico and to international interests that would like to disrupt free trade and the world economy.

Foreign direct investment is also very important to Mexico. Potential investors, as well as governments, question whether there is any consistency among all the free trade agreements to which Mexico is a party. Will the free trade agreement with the European Union allow Europe to enter into North America or disguise its entrance? How will it affect Mexico's competitiveness in North America and

2. Subcomandante Marcos is the recognized leader of the Zapatistas of Chiapas.

Mexico's relationship with the United States? And these concerns might escalate further if Mexico were to enter into a free trade agreement with Singapore.

In addition to these concerns about Mexico's seemingly inconsistent trade agreements, foreign direct investment has been stymied by the fact that foreign investors might not view Mexico as being as competitive as other jurisdictions. If Mexico is not competitive, it simply will not attract foreign investment. Hopefully, however, Mexico will receive the twenty billion dollars of foreign direct investment per year that was forecast by President Fox. As of September of 2001, Mexico had received in excess of 18.5 billion dollars, the most ever. Next year, if we are fortunate and if we make the right changes to the regulatory and legal framework of Mexico, thereby making it less expensive to do business in Mexico, we will achieve at least the twenty billion dollar forecast.³

In order for Mexico to attract foreign investment, an associate of President Fox decided that it would be a good idea to begin a program whereby we could convince large foreign companies to hold one board meeting in Mexico. When the idea was first suggested, President Fox asked what the attraction of Mexico would be for these companies to decide on such an aggressive move. The answer was, first, an address from President Fox. Second, a state dinner. And third, the *Estado Mayor Presidencial* would take care of them so that there were no security concerns. As of September 2001, twenty-three companies had agreed to hold their board meetings in Mexico. This is a very ambitious program that makes a showcase of Mexico without attracting too much media attention.

I will conclude with a review of some statistics that will provide a global perspective of what has happened, what is happening today and what we hope will happen in 2002 and 2003. The most dramatic statistic is the rate of growth of the Gross Domestic Product (GDP). The year 2001 was a disaster for Mexico, with the GDP increasing by only 0.5 percent. We remain hopeful that we can return to the 4.2 percent that we were forecasting for 2002 and the 5.4 percent for 2003.

Inflation is a main area of convergence between the United States and Mexico. Although President Fox continues to stress that we have never had parity with the U.S. in inflation, our rates are beginning to look alike. This convergence might signal the deepening of NAFTA.

Finally, Mexican trade deficits are slowing due to a lack of imports. We are seeing a switch over from intermediate goods to consumer goods, which is something of a concern. The current export-import account deficit in GDP terms is encouraging. Mexican reserves are fantastic. Of course, IMF reserves are discounted, but there are no securities that are denominated in dollars that can be exchanged.

QUESTION AND ANSWER SESSION

DOETSCH: One area I want to ask you about in particular is the agricultural sector and the sugar sector, since it seems to tie together a number of these scenarios. To the extent that there is increased unemployment, that subsistence

3. Years of polls of the two thousand members of the American Chamber of Commerce, representing the five hundred largest businesses, indicate that it is too expensive to do business in Mexico without deregulation.

agriculture fails and that the market for agriculture falls in rural areas in Mexico, you may begin to see a lot of people heading to the cities and to the borders. This migration may increase tensions with the United States and it may increase security issues in the large cities, particularly Mexico City. I am wondering what is possible, given the budget constraints in Mexico right now, to try to alleviate and improve agricultural policy so that people will remain in the countryside?

JÁUREGUI: I think the best solution is transparency, transparency, transparency. That issue is so important because regulatory aspects of the agricultural industry in Mexico have always been marred by corruption. Not necessarily by people stealing or taking money, but by power mongers. Remember that some of the main proponents of the PRI are corporate labor unions such as the *Comisión Federación Nacional Campesina* (CFNC). The CFNC was always the Green vote that was feared by Vicente Fox and that changed, surprisingly, with Labastida. Since we did not foresee this change, we did not really expect, in rational terms, that Vicente Fox would win.

Another problem is that the private sector does not believe in the agricultural business, and those that do believe end up losing money, getting subsidized or getting wiped out. Investors do not trust agricultural endeavors because of the structure in Mexico and because of the widespread corruption.

Immigration into the urban centers of Mexico has been dwindling for a while because most rural Mexicans are leaving for the United States. They are not coming into Mexico City anymore because it has been impoverished by its urban policies. Before, a scandalous amount of people were coming into Mexico City everyday. At the beginning of the Salinas administration, there was an effort, that was obviously unconstitutional and against human rights, to wait for the migrants on the roads outside of the city and to force them to turn back.

Clearly, this is a serious issue. If you close the U.S. border more, the rural migrants will seek refuge in the Mexican urban centers. But if you do that, havoc will break out in the Mexican cities and the United States will distrust Mexico more because of the resulting danger. This is the tension that President Fox and President Bush agree upon, and I think they are trying to explain this tension to their respective Congresses.

The problem with what you are saying is that, as far as Mexico is concerned, the brightest and the best are the ones that endeavor to cross the desert or to swim across a river or to challenge rubber bullets and poachers in Arizona. Those people are the best and the brightest because they have the initiative, without education or resources, to go and find something better across the border. Those that stay in places like Mexico City are those that have no initiative. They are too poor or too uneducated to even think about crossing the border. They have no strength to do it. They have the weaknesses that take them to the urban centers of Mexico to become distributors of products in the informal market, to become criminals or to become hostages of crime. That is exactly the problem we are facing.

We need to retrain the people in the countryside. We need capital. We need schools. We need health care. We need the private sector's confidence that we are doing the right thing. That is why I would say that as stupid as expropriation looks, it may be the only way to show that the government is ready to grab the bull by the horns. The problem is that expropriation means more expenditure by the government without really fixing the problem, which is economic in nature. Why

can't we merge the entire sugar sector into two or three very large companies and make those companies profitable? We have, as you have seen, expropriated twenty-seven sugar mills and there are, I think, thirty-six left.

Protectionism does not allow for Mexican sugar exports to go to the United States, for whatever reason. I am not passing judgment. But the problem is that this stalemate creates foreign imbalance in Mexico, since millions of people depend on the sugar industry. As a result, people are going to be displaced, which will lead to trouble at the border. So whether we like it or not, we are interconnected and one thing we cannot do is close the border. Therefore, the strength of the sugar lobby in the U.S. is provoking and causing Mexico's exportation of labor. Everything is linked. Think about the gain for mid-America with the export of corn and wheat into Mexico. Why are we dependent on that kind of importation? Why do we have to spend our foreign currency to buy natural gas, corn and wheat? Why do we have to spend our foreign currency to try to maintain sugar mills that cannot operate? It all becomes so complicated that it is almost impossible to comprehend without being an expert.

OWEN: One of the problems that you read about a lot in Mexico is that the peso is overvalued, which causes the exports to be decreased. It also causes a great increase in consumer goods, as you referenced, yet one of my friends, who is one of the *subgobernadores* of the *Banco de México*, is adamant that Mexico has a free float in place. My question is, how can the peso be overvalued if Mexico has a free float in place? Or does it have a free float in place?

JÁUREGUI: I think we have a free float *a la mexicana*. I think it is a free float when it is convenient to be a free float. It is not a free float when we sell dollars if we want to stalemate the market or when we buy dollars if we are concerned with slippage. I think the proof of the pudding is that, as you said, there cannot be a free float by the laws of the market to the extent that there is overvaluation. Now, not having a free float has helped with the inflation problem, so there are underlying reasons for not allowing the free float, or what they call the free float. The term free float is used because they do not want a run on the banks, basically. They have been able to sustain it so far because of the influx of foreign capital in the form of direct foreign investment. If we do not make it attractive to investors, we are going to be in real trouble with our peso. I do not think the 2002 and 2003 expectations of the American Chamber of Commerce are going to withstand the pressure.

The other side of the equation is that a very strong peso makes costs very high. The answer is to become more cost efficient. To become more cost efficient, you have to control your labor and the manner in which you manage your company in a more modern way. Now, between the transition from our old Mexican ways to Mexican labor as it stands now with increased efficiency, we may have a devaluation. If nothing happens because the direct foreign investment continues to pour in and if inflation and the government deficit are somehow restrained, we can likely maintain a stable peso.

The principal reason to maintain a stable peso is to attract foreign investment. The only way to maintain foreign investment is to insure that the investors do not lose money by putting it into Mexico. If you fail to attract foreign investment, we will have to devalue the peso, regardless of other variables. We are chasing our own tail, so to speak.

I do not think anybody can say that the peso is sound. But the soundness that does exist is driven principally by NAFTA and by the proximity of the U.S. private sector to Mexico.

PEREZ: In your opinion, what will be the future of free trade agreements with other countries, especially the European community?

JÁUREGUI: I supported the decision to enter into the Israeli-Mexico free trade agreement. Mexico saw fit to enter into such an agreement for three reasons. First, we needed technology in addition to that which is coming out of the United States. Second, we needed partners that do not have a lot of money, like us, but that are creative and can do joint ventures with us in high technology without charging too much for it. Although Israel does not have much capacity for capital exportation, it does have good partners in the world. Third, Israel has one of the more distinguished logistics in Europe. If we are able to sit on top of their logistics, we are going to be able to export to Europe at a greater level than we are doing now, especially in produce and other consumer goods. If that proves to be true, Israel also has some agreements with some of the Eastern European countries that are perfect markets for us. Some relief in financing would be helpful, and hopefully Bancomex has enough money and enough hindsight in this area.

The Israeli lobby in the U.S. is one of the more important lobbies that we can find to support our views. If we did not support their views and if we did not sign a free trade agreement with them, we would not necessarily be upheld as a good neighbor, even though we were otherwise a good trading partner.

Now, having outlined the specifics of a micro case, I will go into some generalities. Mexico's view was that since the U.S. was incapable of creating a hub-and-spoke free trade arrangement because of the stalemated powers of the president and the arguments against free trade, Mexico could take a place on the international scene. I cannot be as presumptuous as to say Mexico could take the place of the U.S.; that would be impossible given our difference in size. But Mexico could be an example, politically, of how the countries of the world could be joined together vis-à-vis free trade. Mexico embarked on something that we hope will be consistent.

We are being very respectful, as far as I am concerned, with rules of origin. We are struggling with §303 of NAFTA.⁴ We are also struggling with the *Programas de Fomento Sectorial*, vis-à-vis §303. For those who do not know what I am talking about, §303 says that by the year 2000, manufacturers should have had North American components in place. Not every *maquiladora* that is in Mexico is North American, first of all. In addition, not everyone is going to comply with that rule. In order not to wipe them out financially, the Mexican Economic Ministry decided to issue promotional programs, which would enable them not to pay taxes on components that are North American.

The main criticism has been that Mexico has been inconsistent in its free trade agreements. However, the principal reason these agreements were signed was an attempt to make Mexico a place for globalization in spite of its deficiencies in such things as labor efficiency, infrastructure, culture and corruption. The only way to

4. North American Free Trade Agreement, Dec. 8-17, 1992, U.S.-Can.-Mex., 32 I.L.M. 289, 296 (1993) (entered into force Jan. 1, 1994).

accomplish this goal was to make these complicated and very intricate free trade agreements.

Some of my colleagues who oppose certain aspects of the free trade agreements say that Ross Perot's giant sucking sound has been in exactly the opposite direction. They say that in some aspects, we have lost more freedom than we gained. This is one of the reasons why the free trade agreement with Singapore was stopped during the transition from President Zedillo to President Fox. Some critics have urged the President to refrain from signing any more agreements so that they can adjust to those already in place. That is why President Fox decided that the emphasis will be switched from Singapore to Japan.

KRYZDA: You mentioned the importance of the investment grade rating. This may call for speculation on your part, but to what extent will that depend on the rating agencies getting comfortable with the success of the legal reforms we have been discussing over the last two days in the areas of insolvency law, secured transactions and corporate governance?

JÁUREGUI: In my view, I think it's tripartite. One-third is composed of the legal framework, transparency and proper execution of laws, which we have been discussing at this conference. If these are not in place or if they do not really work, then nothing will work. The second third involves restraint by the government on its expenditures, its deregulation practices and its willingness to uphold international obligations. Finally, the last third has a lot to do with Mexico's social stability and domestic security. We must assure compliance with the law. We must restrain rampant organized crime, kidnapping, car theft and many of the other issues you see here. Additionally, we must behave appropriately as citizens of this country, which includes paying our taxes so that the government does not run out of money. Currently, middle class professionals are bearing the brunt of the whole expenditure of Mexico. We must ensure that all industries contribute.

To the extent that these three areas can be dealt with, I believe we will get an investment grade rating of the same degree. I think we are making strides and I am hopeful that the grading agencies will view this with some kindness. I also think we will receive help from the international community which realizes that unless Mexico achieves its investment grade soon, it will not have enough cards to play.

