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Donald Trump came to the Presidency with some very hard and fast views, at least in one or two areas. One was certainly immigration, taking a strong position against enhanced or increased immigration to the United States. Interestingly, the other hard and fast position linked to immigration was trade; the strongly held view that no country should enjoy a trade surplus with the United States. There has probably been no country more affected by this emphasis on controlling immigration and taking a hard-line position on trade, than Mexico, America's southern neighbour. Today, there is probably no one better positioned to address these questions than my old friend Juan Gallardo. Juan is a prominent business figure in Mexico City and has built a large agribusiness in Mexico. He also serves on several international boards, and for the purposes of our conversation this morning, you need to understand that he can literally be described as one of the fathers of the North American Free Trade Act. I would like to begin with you Juan, to see how you describe the future of the North American Free Trade Act and what American policy towards NAFTA tells us more broadly about Trump's foreign and trade policies.

Juan GALLARDO

Thank you, Rick. Let me start by saying that it is a great pleasure to be with you Rick, and with such a distinguished panel. I think Thierry's timing on selecting this subject could not be better, because frankly, we are in the throes of this negotiation process. I would like to break my comments into three issues. Number one is on the NAFTA renegotiation process: where it stands and what are its perspectives. Number two, the reactions in Mexico to Trump's proposal to build "the wall". Number three, what is Mexico doing to minimise the negative impacts if the renegotiation of NAFTA fails and the US exits the NAFTA.

Just before going into each of these three issues, I would like to stress that the renegotiation of NAFTA and the construction of the wall, have generated two very distinct feelings in Mexico. The first feeling is uncertainty. We discussed the issue of uncertainty yesterday in several panels; in Mexico, very clearly not knowing what is going to happen with NAFTA has generated a level of uncertainty that has become a challenge to the private sector from a business standpoint, apart from others. As investor, you do not know whether you should or should not invest. That imposes an important cost for business and in general for our country.

The second feeling is a certain level of resentment, derived from the way in which these two initiatives were cast. Labelling Mexico as the culprit for the job losses in the "rust belt" and for all the immigration and all the drug problems of the US, it is not exactly conducive to a good working relationship.

Let me now turn to the three issues at hand.

Number one, I do not think I have to explain to such a distinguished audience, how incredibly successful NAFTA has been for all three countries. Every single serious study shows the benefits for the three countries of the strong trade and investment flows in North America. NAFTA has been an enormous success not only in economic terms but in generating a new perception of the opportunities of being neighbours and friends. The rules of operation of NAFTA have set an environment that brings comfort, support and credibility to doing business in North America, which I think is a very important result of NAFTA.

Where are we right now in the renegotiations of NAFTA? I think we are facing a great opportunity, and at the same time a great threat. A great opportunity because simply any contract that you reread after 20 years of operation is going to have numerous opportunities for improvement. This is the case in NAFTA, given the enormous progress that has occurred since 1992 in the ways in which trade and investment flows take place. Additionally, there are opportunities in enhancing the effectiveness and efficiency of the dispute settlement procedures, bringing together the



exciting capabilities in e-commerce, locking into the NAFTA the far-reaching reforms in energy and telecommunications that Mexico has enacted, which were a total no-no in the first go-around of the NAFTA.

There are many other elements of NAFTA that can be truly enhanced using the experience from these last 20 years, to make NAFTA much more efficient, more enforceable and therefore, much more credible.

Today, there are literally 700 very talented people working practically around the clock to achieve the modernization of NAFTA. In the teams from Canada, the US and Mexico there are people who have known each other for well-over 20 years, who know their subjects and know exactly what needs to be done to deliver a modern and much better agreement. That is the good side of the opportunity that the renegotiation of NAFTA represents.

The difficult and very challenging side of the renegotiation, is the series of proposals put forward by the US during the fourth round of negotiations.

These proposals go against the competitiveness of all three countries, not just Mexico, but the US and Canada too. For example, proposals which have the unattainable objective to manage the US trade deficit. For example, weakening or eliminating the dispute settlement procedures that bring credibility, strength, enforceability to the flows of trade and investment in North America. For example, trying to change the successful complementarity in flows of agricultural products between the three countries, by increasing the likelihood of imposing antidumping measures against Mexican and Canadian exports to the US. Finally, a sunset clause, which would automatically eliminate any kind of permanence and credibility for the investment in North America.

This is indeed the bad side of the present renegotiations.

On the second issue, the casting by the US of the construction of the wall is so wrong. It is clear that both Mexico and the US have a distinct interest in having an efficient and effective border. On the US side, there are sensitivities to the traffic of drugs and the illegal immigration flows. Although, the net flow of Mexicans is now negative and the immigration flows are from Central American countries, nevertheless, it is totally valid for a country to control its borders; I do not think there is any dispute on that. I will not go down the whole drug lane, because it is a co-responsibility between Mexico and the US and it is so much more complicated than what can be said in just one sentence.

On the Mexican side, we are just as interested in having an effective and efficient border. There are thousands of armouries just across the Mexican border, selling state-of-the-art weapons to the Mexican drug dealers. Those armouries are being paid with a small part of the almost \$50 billion in drug money flowing into the leaders of the cartels in Mexico. It is the combination of weapons and money which makes much more difficult the war against drug traffickers. We have lost over 100,000 policemen in the battles over the last three to four years!

I think we are just as interested in stopping the flows of guns and money, as the US is in stopping the flows of drugs and illegal immigration. There are so many new ways to control and monitor these flows with drones, electronics, etc., that could be so much more efficient than a wall, if we both set our minds to it.

In Mexico as well as in Canada, we are developing and applying a series of policies which would be efficient in minimizing the damaging effects if the United States decides to leave NAFTA.

For instance, we are doing just that in enhancing our trade agreements with Europe, Asia and Latin America. By the end of this year we will probably have finished the negotiations of a state-of-the-art trade agreement with Europe. We are rekindling the Trans-Pacific Partnership without the US; this agreement sounded dead in the water, but it is not. With Latin America, we have also launched what is called the Pacific Alliance, a most creative arrangement which could be the basis for an effective integration in Latin America.

We are finding sources of certain key commodities around the world, which could be competitive vis à vis the US, especially if the US decides to exit NAFTA.

We have a Plan B, which is not the plan we want, but it is what is needed to effectively face that negative scenario.



In the US side, the reaction and the lobbying by our colleagues in the private sector in various associations has been very strong in the last weeks.

Finally, both Mexico and Canada have been very clear on drawing the line on anything that would negatively affect our competitiveness.

I think there is still a possibility that the NAFTA would be strengthened, and we will overcome the challenging situation that we see right now.

It is just important to see how the private sector is reacting and could react in the face of diverse trade policies. As a reaction to the countervailing duties that were levied on Bombardier, Bombardier established a joint venture with Airbus. The private sector will always look for optimal arrangements across borders; if you cannot do it one way, you can do it another. I think that example is very eloquent and that speaks a world for what can be done.

What do we have to do in the future? Very simply, we have to continue to strive to make of NAFTA the best deal possible and we will continue in good faith to do so. We must hold our line! We must also be ready to implement our Plan B very carefully, so that we maintain our competitiveness and react in manners which are as efficient as possible.

I personally think that we can still achieve a state-of-the-art agreement in North America.

Inshallah!

Richard BURT

Thank you, Juan. Juan, you did a masterful job giving us a *tour d'horizon* of the North American trade environment. You took exactly seven minutes too long in doing that, and I am going to ask my other speakers to be a little more disciplined, so that the audience gets a real opportunity to participate here.