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Dollar and Sense
Ernesto Zedillo on globalization, NAFTA and the wall
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DOLLAR: Hi I'm David Dollar, host of the Brookings trade podcast, Dollar and Sense. Today my guest is Ernesto Zedillo, the director of the Center for the Study of Globalization at Yale and the former president of Mexico. Great to have you on the show.

ZEDILLO: Great to be on your show, David. Welcome to New Haven.

DOLLAR: Yes. So, since we're here at Yale at the Center for the Study of Globalization I thought by asking you a general question, what's the importance of globalization for developing countries? Is it as controversial there as it is in many of the rich countries? How do you see this issue?

ZEDILLO: Well, I think if we review the history of growth and development of developing countries, particularly the group that is now called emerging countries, emerging economies, I think a common denominator—and I think this was well researched by you some years ago when you were at the World Bank—a common denominator is that those developing countries that have been successful in growing faster and in reducing the number of people living in conditions of poverty are precisely those countries that at some point in their recent history decided to insert themselves more actively into the global economy. That is to say, to be more open, to import, and also to pursue more active export activities. So that is to say, countries that decided to globalize more into the developing world were those that seem to be having better economic performance not only in terms of growth but also in fighting poverty.

So, I think the record is a quite good. And therefore, it is somehow paradoxical to see nowadays these reactions against globalization, particularly in rich countries which actually went through a similar process earlier in their economic history when they were more active in engaging in international trade and investment that was good for them. They had of course a great influence in determining the international trading system, and now it's almost ironic to see that in some of those countries we have these negative

reactions towards globalization.

DOLLAR: I know one of the things you've been writing about is the erosion of multilateralism. Multilateral institutions are the foundation of all different aspects of globalization. So, what is the erosion you're worried about? Can you give us a few examples?

ZEDILLO: Well, I worry in general about this negativity, that in some quarters and sadly in a very significant way in the United States nowadays prevails against the international institutions that have provided a modicum of governance in many important aspects for international prosperity and also for international peace and security.

Of course, the main problem I see because of the consequences that it could have in the future, not only of humanity's economic and social progress, but I would say the existence of humanity as we know it today, is the question of the nuclear order. That is to say we have had nuclear weapons now since the end of the Second World War. We had during the times of the Cold War a regime certainly based on sort of perverse ____ and a stable order, which was deterrence and mutually assured destruction. When the Soviet Union fell apart, we saw a disarmament process, which was very important. However, in recent years we are seeing that system to unravel and countries, the nuclear countries, particularly the United States and Russia, are in the process of rearmament. And this I think is very dangerous, could be very consequential, and somehow it must be stopped.

I think these great powers as well as the other nuclear powers should come into senses and to rethink what they are doing, because it is not only extremely expensive but extremely risky.

Of course, I worry a lot about what's happening with the multilateral trading system. I think we are seeing this system under constant attack again. Paradoxically, this attack on the trading system is being led nowadays by the United States government, which I insist is ironic because the United States has been the leader in the construction of that system,

and I will claim with confidence that the United States has been a great beneficiary of that multilateral trading system.

I worry, of course, also about what is happening with the agreement that the international community has had about how to mitigate climate change. And again, we see the United States in the process of withdrawing from the agreement and that of course is very negative. I would say it will be very negative for the United States, but very negative for the rest of the world for obvious reasons. So, we see this disregard of the multilateral trading system, which of course is a system that needs to be reformed, needs to be reinforced. But I don't think the way to do it is to destroy it first.

DOLLAR: I couldn't agree with you more, Ernesto. I think of these issues that you're raising as global public goods, nuclear nonproliferation, the free trade regime, carbon reduction. It takes very strong multilateral cooperation to bring about this kind of public goods. And that seems to be eroding.

ZEDILLO: Yes, these are what we economists like to call "collective action goods." I mean only when you have coordination, international coordination, you are able to provide those global public goods and, of course, if the leading power, which is the United States, decides not to be part of that game then it is always that the difficulty to put together the provision of those global public goods becomes a very difficult task, which is always very difficult and probably an impossible task.

DOLLAR: I should remind our readers that for Ernesto Zedillo has a Ph.D. in economics from Yale University, so it's very rare to get to talk to a president who has a Ph.D. in economics, it's a treat. Ernesto, I know you were president of Mexico starting I believe in 1994 and NAFTA was just being implemented. So, I wonder if you could talk a little bit about the original NAFTA? Was this hugely controversial in Mexico? Did you have to fight off interest groups in implementation or was it all pretty smooth sailing?

ZEDILLO: Well, when Mexico announced that it was going to negotiate a free trade

agreement with the United States, of course there were reactions in my country. Mexico was a country with not only high tariffs but had used and abused other instruments to restrict trade into Mexico, traditionally. But that condition had exacerbated at least until the middle 1980s. Around that time Mexico started a gradual process of opening up. Unfortunately, in the early '90s, the government came to the conclusion that it was important to be more ambitious about the opening up of the Mexican economy, and that if we were going to do that then we would find that it would be in our interests to pursue a free trade agreement with the U.S.

When this was announced, of course, it was kind of shocking news in my country. People were saying how is it that we are going to compete with the most powerful economy in the world? I think there was a process of information, of persuasion, and by the time the negotiation of the agreement was concluded, I think there was a much better understanding and attitude towards the agreement that had been negotiated. And, of course, it was also known by then that it will not be overnight that our lowering of tariffs that was committed in the agreement would be done overnight, that there will be periods over which the liberalization will take place.

So, I think that once the agreement came into effect, the opposition to the agreement was not terribly significant, and, in fact, what's happened is that at the end of '94, when the agreement had been in place for a few months, Mexico had to deal with very serious financial and economic crisis, which led us to have a significant program of economic adjustment and stabilization and to request resources from various sources to finance the process of adjustment. And I think it was clear that being part of NAFTA played in our favor to get the international support, not least from the United States, which we needed at the time. And it was also clear that the process of recovery of the Mexican economy in view of the difficulties that we were having proved to be faster and probably more benign than the process of recovery had been when we confronted the early 1980s

debt crisis, basically not by opening our economy but by closing our economy. This time around let's say the conditions were totally different. And I think it was clear that Mexico's economy was able to overcome the crisis and recover much faster than before, among other reasons because we were members of NAFTA. So, I think that helped to reaffirm the idea that far from being a bad decision, negotiating NAFTA had been a good decision for the part of the Mexican government.

DOLLAR: President Trump was quite critical of the NAFTA agreement, when he was Candidate Trump, he was very critical of the NAFTA agreement. And, to be fair, some of the Democratic candidates in 2016 were also quite negative about the NAFTA agreement. There were some claims made about job loss to the United States. I don't think any of these were backed by serious research. But after election President Trump has moved to renegotiate some aspects of NAFTA, he's renamed it the U.S., Mexico, Canada Agreement, so USMCA. So, do you think the USMCA is an improvement on the old NAFTA? Is it important change? Is it more or less the same old NAFTA in a new bottle?

ZEDILLO: Well, thank you, David. First, I think I would like to insist on a point that I have made previously, and that is to say that the basis upon which the U.S. government allowed the renegotiation of NAFTA were on the wrong premises, because I remember to have read the document that the USTR issued to explain the objectives of the negotiation. And that document started with something which was simply wrong and saying NAFTA had caused the huge current account deficits with Mexico and part of the United States, it has led to thousands of factories to be closed, and then they use this terrible expression and has led to the abandonment of millions of American workers. While none of the above is true, and I think starting the negotiation with those premises was not good. But anyways there was a negotiation for almost a year not significant progress in those negotiations. Frankly, the U.S. part was making some demands that were not really reasonable. I don't think they were in the interests of Mexico, in the interests of Canada, and, importantly, they

were not in the interest of the United States. At the end, fortunately, a deal was made. This deal is still to be ratified by the respective Congresses, and in the case of Canada, Parliament.

If you have asked me, well in some aspects the new deal will be an improvement, particularly in reference to issues like intellectual property rights, labor aspects, environmental aspects. But the interesting thing is that all of these aspects had already been negotiated by Mexico, Canada, and the United States, because the three countries were part of TPP, and, unfortunately, the American administration in its first day in office, the present administration, discarded the TPP. So, it was kind of an idle exercise to renegotiate these aspects which have already been negotiated in TPP and that we can impose those disciplines on our countries. But anyways, they are in the new NAFTA.

Now in terms of trade, it will be very hard to argue that the new agreement is an improvement over NAFTA, because it contains some restrictions that at least in one sector will make trade among the partners harder, not easier to undertake, and therefore I think the net result of that will be to reduce the competitiveness of the sector, not only within our borders of the three countries, but also globally. Having said that is not a dramatic deterioration, but I insist it will be hard to make the case that the new NAFTA is an improvement over the old NAFTA, except for those aspects which had already been negotiated in the TPP and practically were copied into the new North American Agreement.

DOLLAR: Some trade economists are calling the new agreement NAFTA 0.8, by which they mean it's about the same as the original NAFTA, but not quite as good. So, it's not NAFTA 2.0 it's NAFTA's 0.8.

ZEDILLO: Well, you see, again, depends how much weight you give to purely trade aspects, and how much weight you give to other aspects. But it is what we have. If the alternative is not to have NAFTA at all, then I think we have to be supportive of the new

agreement, and I hope the agreement when the time comes, is expeditiously approved, and it comes into effect. I think it is important for the three countries to have an instrument that provides rules on how to carry out trade and investment among the three countries. It is an instrument that also has the mechanisms to enforce the rules. And that is good for Mexico, that is good for Canada, that is good for the United States. Perhaps in the future, we can work on a much more ambitious agreement.

DOLLAR: So, I have to ask you about the wall. President Trump made a big issue, wants to build a large wall. It's not exactly a trade issue, but of course if we build a wall it probably is going to make international trade between our two countries more complicated. But I guess the more general question is, is this really damaging U.S.-Mexico relations?

ZEDILLO: Well, I think we have to put the issue in perspective. I don't think the wall by itself will damage international trade between Mexico and the United States because we have entry points in between the two countries which are incredibly active, where every day you know millions and millions of merchandise crosses in both ways of the border. I think this is more politically expedient that President Trump has preferred to use as a symbol of his, let's say, anti-immigration stance. I guess he and his advisers know that in practical terms this is not a terribly useful instrument to control illegal migration from Mexico and from other countries into the United States. You know most illegal migrants in these countries don't cross, let's say the Sonora, Arizona desert walking. I mean there are some who do that. Or the Baja California border, they come by other means. So, I don't think the wall will make any significant difference, because, by the way, whatever is possible, there's already a fence that protects physically, let's say, the crossing into the United States. So, this would be redundant and probably very expensive. Now having said that, I don't think it is our role as Mexicans to oppose the construction of a white elephant in the U.S. territory, as long as it is in the U.S. territory. I mean, it is up to the American government, to the American people, to the American Congress, to decide whether or not

to waste incredibly large amounts of money. We shouldn't opine on that. The only thing that we believe is that if they do something like that they have to be careful about not touching a millimeter of our territory, to look after the environmental aspects, which are very complex in some parts of our common border, and of course we would like the rhetoric that has been used to be more careful and respectful. But I don't think this will have any practical consequence, good or bad, for the serious and close economic relationship between the two countries.

DOLLAR: For our last question I want to shift gears. One of the things we've developed in a number of earlier podcasts is that free trade needs to be complemented by other domestic policies, that free trade can have very powerful effects on communities and individuals, and so safety net aspects are important. And I know you played a leading role in developing the Mexican program that was originally named PROGRESA. So, I wanted to ask you to talk a little bit about that and how that contributes to making sure that everybody benefits from the kind of growth that can be promoted by free trade.

ZEDILLO: Well, this is an important issue for sure, David, because I think this goes to the heart of what we are now living through particularly in rich countries like the United States, and that's the backlash against globalization. I think it's very unfortunate that not only politicians of all persuasions like to establish a relationship between some ills that are taking place in the world, and economic interdependence, and globalization. I think it has become fashionable to associate things that we don't like, like poverty, like poor income distribution, like marginalization of large groups in our societies, to the fact that we have this intense globalization that has developed over the last half century. Well, I think that kind of correlation that politicians like to make between the two sets of phenomena is a rather spurious and misleading correlation. And, I think, it's just an easy, expedient tool to divert attention from the failure of domestic policies and tried to put the blame of those failures on foreigners, on trade, on foreign investment, on globalization. And I think that's

totally irresponsible. It is true that trade by itself is not an all-powerful instrument to pursue economic development and, let's say, more egalitarian societies. I mean that is totally wrong.

Trade is only one among many instruments that need to be put at play. And therefore, I think we should question more whether governments and societies have been sufficiently serious, first to recognize issues that should have been confronted a long time ago, and, in some cases, recognize that some of the ills are really the consequence of explicit political decisions and policy decisions that have been taken in the past. I think in many countries, not least the United States, there have been tax reforms, there have been adjustments in a number of social programs, there has been a neglect of the provision of certain fundamental goods that are at the root of those social ills that now politicians, and particularly demagogic politicians like to put the blame on globalization. So, I think it's important to recognize that, because as we speak, we are seeing all these attacks, which in my view is only a diversion, an illusion of responsibility. I think we can see that in some developing countries, including Latin America, it has been possible in the last few decades, as we became more open, and as we had better growth performance, to finance social programs that have helped us to reduce poverty and somehow improve, not yet to the point where we want to make it and need to make it to improve income distribution.

And one example of that is approach and you mentioned when I was in office, we aimed to develop a program that will help people living in extreme poverty not only to improve their consumption, which was very important, but also to do it in a way that will give the beneficiaries of the program an incentive to make sure that their children will stay at school, and also use the available medical services in the communities that they live. And that's how we act or, you know, some serious very technical work.

I don't tire to insist that good social policies are actually highly technocratic exercises. You have to do research before you decide how to put together a good social

policy. And that's what we did back in the mid-'90s. In Mexico, we review our own experience, we review research, we did a lot of pilot testing, and we came up with this idea which is now known generally in the world as "conditional cash transfers program." In our case it was called PROGRESA, but every government has changed their name, and I don't, I don't care about that. And now the program is in many countries, more than 40 countries have adopted one form or another of conditional cash transfers. But I would say just one aspect, one concern I always had was, okay we are going to succeed to help people to move out of extreme poverty with PROGRESA. But that will not be enough. We have to make sure that those children that now will be able to complete their basic education are really empowered to have better jobs, not just marginal jobs in the informal sectors of the economy. But I also knew, I know equally well, or even better today, that this has to do not with programs like PROGRESA, there are many other things that you have to do in your economy in order to have more resources, including labor, are located to the modern sectors of the economy that will produce better jobs and better wages.

DOLLAR: Ernesto, thank you so much. I really enjoy the combination of research background and practical experience. So, thank you for sharing your views with us about globalization, U.S.-Mexico relations.

ZEDILLO: Thank you so much David for having me on your program.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollars and Sense every other week. So, if you haven't already, make sure to subscribe on Apple podcasts or wherever else you get your podcasts and stay tuned.

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And until next time I'm David Dollar, and this has been Dollar and Sense.