Elliott School JAMA Lecture

Reducing International Divisions in the Global Economy

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THE ELLIOTT SCHOOL

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About the Lecture and Speaker

Robert Hormats is Vice Chairman of Goldman Sachs (International) and Managing Director of Goldman, Sachs & Co. He has been with Goldman Sachs since 1982, when he joined the organization as a vice president in the investment banking division and a director of Goldman Sachs (International). Prior to that, Hormats had a distinguished career in international politics and diplomacy, serving as Senior Deputy Assistant Secretary for Economic and Business Affairs at the Department of State, Ambassador and Deputy U.S. Trade Representative, and Assistant Secretary of State for Economic and Business Affairs. He also served as a Senior Staff Member for International Economic Affairs on the National Security Council, where he was senior economic adviser to a number of prominent officials, including Dr. Henry Kissinger. Hormats holds a bachelor's degree from Tufts University as well as an MA and a Ph.D. in international economics from Tufts' Fletcher School of Law and Diplomacy.

This lecture is the second in a series being underwritten by the Japan Automobile Manufacturers Association. The first, given by Jeffrey Sachs of Harvard University, was held on February 15, 2000. The second was held on March 29, 2001.

The text of this speech and others may be found on the Elliott School's website at www.gwu.edu/~elliott/news/transcripts.

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Reducing International Divisions in the Global Economy

Harry Harding:

This is the second in a series of major lectures on international economic issues made possible by the Japan Automobile Manufacturers Association. As many of you may remember, the first in the series, held about a year ago, was given by Harvard professor Jeffrey Sachs. We're absolutely delighted that Robert Hormats, the International Vice Chairman of Goldman Sachs, would be willing to join us in Washington this year for the second in the series.

I'd also like to thank Bob, and Jeff Sachs, as well, because they have not just been willing to come down to Washington to give a lecture, but they've also been willing to come a bit earlier to meet with some of the students in the Elliott School. In Bob's case, he has met with a group of students interested in investment banking and then with a second group of students interested in the substance of international economics. I was intrigued to learn that there was little, if any, overlap between the two groups of students. Why that is, I don't know. So they are willing to devote a great deal of time to this.

I also, of course, would like to thank the Japan Automobile Manufacturers Association for their generosity in helping us bring these distinguished economists, analysts, and practitioners to campus to address some of the most important economic issues of the day. We are particularly honored to have with us today Mr. Takao Suzuki, who is currently serving as the president of the Japan Automobile Manufacturers Association. He is a graduate of the law faculty of Tokyo University and had a long and distinguished career in government service in the Ministry of International Trade and Industry [MITI], rising to the position of director general of the Environmental Protection and Industrial Location Bureau. Since retiring from MITI, he has been serving in his current position at JAMA since July of 1998. Please welcome Mr. Takao Suzuki to the podium.

Takao Suzuki:

Thank you and good evening. President Trachtenberg, Dean Harding, ladies and gentlemen, I am delighted to be here today on behalf of the Japan Automobile Manufacturers Association and our thirteen member companies, and to have the opportunity to say just a few words at the outset of this seminar. It is indeed a privilege for us to support the Elliott School in this seminar on the global economy. We are particularly pleased that the Elliott School has invited today such a distinguished and keen observer as Robert Hormats to speak to the students and the Washington community on "Reducing Divisions in the Global Economy."

This subject is of great value, interest, and importance to the Japanese automobile companies. JAMA members are students of the 77 countries where they must produce and sell vehicles.

Twenty years ago, nearly all vehicles sold by JAMA members were produced in Japan. Today, these companies produced over 40% of their vehicles outside of Japan. Much of this production is located in the United States. Over the past twenty years, JAMA member companies have invested over $50 million in the U.S. They now employ almost 60,000 Americans, producing over 2.4 billion vehicles in the United States, which represent over 60% of their total U.S. sales. And in turn, many non-Japanese companies have now become students of Japan through a wide variety of technical and sales relationships with JAMA members. For example, General Motors, Ford, and Daimler-Chrysler have important ownership questions in Japanese-owned companies such as Isuzu, Fuji, Suzuki, Matsuda, Mitsubishi, and Nissan. Auto companies of nations have become auto companies of the world. And the fortunes of them depend on the fortunes of the global economy.
We are now in the same seat, in many cases, in the same boat.

You know that the Japanese economy has come through a decade of difficulty; recovery has seemed slow at best. Now, we are told that the United States also faces some economic conservatives. This is clearly an important time to take a careful look at the world economy. By understanding the entire picture, we can build the strong relationships and preserve the benefits of the growing world economy.

In closing, I want to express JAMA's sincere thanks to President Trachtenberg, Dean Harding, Tom Bleha, and others at The George Washington University who have made this event possible. Most particularly, I want to thank Robert Hormats for taking the time to share his insights with us at this important time for the world economy. We look forward to the presentation. Thank you very much for your invitation.

Harry Harding:

Now it's my great pleasure to present the president of The George Washington University, Stephen Joel Trachtenberg.

Stephen Joel Trachtenberg:

Thank you, Mr. Dean. I am delighted to be here with you all this evening. The university is very fortunate to have the Japan Automobile Manufacturers Association as sponsors of this distinguished lecture. And we are most appreciative that Mr. Suzuki has flown from Tokyo to be with us this evening. This lecture series presents the very best of current international economic thinking to the university and, beyond that, to the Washington community. We are thankful to JAMA for making it possible.

Now, tonight's distinguished lecturer, Dr. Robert Hormats, is no stranger to Washington. In the late 1960s and 1970s, he served as a senior economic advisor to Dr. Henry Kissinger, General Brent Scowcroft, and Dr. Zbigniew Brzezinski at the National Security Council. From 1977 to 1979, he was deputy assistant secretary of state for economic and business affairs at the Department of State. He then became deputy U.S. trade representative before returning to the State Department in 1981 as assistant secretary of state for economic and business affairs. During this period, he was the recipient of the French Legion of Honor and the Arthur Fleming Award for distinguished public service, an award that, by the way, The George Washington University now has the privilege of administering. Since that time, Dr. Hormats has had extensive international experience in the private sector and is currently vice chairman of Goldman Sachs (International) in New York. He also serves on the boards of the Council on Foreign Relations, Englehard Hanovia, and Human Genome Sciences, and the board of visitors of the Fletcher School of Foreign Diplomacy, which you all know is the second best school of international affairs. He is the author of American Albatross: The Foreign Debt Dilemma and Reforming the International Monetary System and is a frequent contributor to a number of prominent journals and newspapers. He received his bachelor's degree from Tufts University and his master's and doctoral degrees in international economics from the very same Fletcher School. Ladies and gentlemen, please join me and The George Washington University in welcoming Dr. Hormats. Thank you.

Robert Hormats:

Thank you very much, President Trachtenberg, Mr. Suzuki, my many friends in the audience. It is a great honor to be invited to this forum and to have the opportunity to speak to you. I particularly would like to thank JAMA for its generosity and its wisdom in pulling together a forum like this, bringing together a series of speakers to address these very important issues that affect all of us in the global economy. This evening I would like to discuss the challenges posed by globalization in the early twentieth-first century.

Before I do, I can't help but say that I feel particularly at home here because during my first job in Washington, when I was working for Henry Kissinger, I lived only two and a half blocks from here. I walked by The George Washington University every day on the way to the Old Executive Office Building and participated in a number of very interesting discussions and fora that were held at the university. So I feel very much at home at the university, and I'd like to thank Harry and others who were so kind to invite me to participate in this forum.

The time when I was in Washington initially was a very interesting time in my life and the history of this country. The United States was emotionally and politically torn. It was during the Vietnam War and there were divisions on campuses, there were divisions in society, and there was a divided world. The world was in the midst of a Cold War. The United States was in the midst of the Vietnam War. The Berlin Wall was a major factor in our lives. And nuclear war remained a threat. The world had not begun to embark on the kinds of democratic and market-oriented reforms that we have seen over the past decade.

The world, since I was living at 24th and H Streets, has changed quite dramatically. The Vietnam War has become a distant memory. The Cold War is over. The Berlin Wall, the most prominent symbol of the Cold War, has been torn down. Germany has been united.

The Soviet Union exists no more. China, which was then a pariah, is now a major player in the global political and economic system. Democracy has taken root in much of the world, and so, too, have market economics. The information revolution is tearing down barriers worldwide. I think the person who put this best was President Vaclav Havel of the Czech Republic, who said, “Things are moving so rapidly, we have not yet had time to be astonished.” I think that pretty much summarizes what happened over the last ten or fifteen years.

Yet it is not on these remarkable developments that I would like to focus this evening, but on the four challenges that we all face at the beginning of the twenty-first century to prevent new divisions. Not divisions as in the Cold War, or political and military divisions, but social and economic divisions, largely between industrialized and developing countries. There are also significant social and economic divisions within our own societies, which can be just as corrosive. Failure to address these challenges could destabilize governments and lead to the kind of friction in the global economic and political system that we hoped we had put behind us with the end of the Cold War.

Let me briefly identify those four challenges at first and then describe them in greater detail. First, the challenge of balancing the desire of nations and citizens for economic growth with their desire for social stability and social cohesion. Globalization should be about increasing the incentives for nations to improve their domestic institutions, to enhance the opportunities in their own societies, and to broaden the opportunities for a larger and larger number of people to participate in growth as well as to participate in a positive way in the process of globalization. Globalization does not mean the U.S. imposing its values or its institutions or its system on other countries, or forcing them to adapt to changes in the world economy at a pace faster than can be accommodated by their own social systems and their own political systems.

Two, we in America face a particular challenge, and that challenge is to educate a larger and larger number of our citizens so that they see new technologies and globalization as an opportunity rather than as a threat. This is particularly important not just to make our own economy work better in the twenty-first century, in which growth is going to be increasingly knowledge-driven. It is also important because if a large portion of our own citizenry see themselves as disadvantaged by the global economy, they will resist the efforts by the U.S. to take the lead in global trade or other economic negotiations. They will force the U.S. government to turn inward rather than maintain its global leadership role.

The third is the challenge of harnessing the opportunities created by the computer and the Internet to avert a digital divide between those who can exploit these technologies and those who feel exploited by these technologies.

And the fourth is the challenge of ensuring that international trade and adjustment produce broader opportunities for countries around the world. This is necessary both to avoid backlash at home and to avoid growing resentment in the developing countries.

Let me discuss each of these. First, the challenge of adapting to institutional and cultural differences among nations, ensuring that globalization improves domestic institutions, particularly institutions of economic governance. We saw in the past that there were efforts made to press countries to open up their economies, to reduce barriers to trade, investment, and capital flows. Many of these countries really weren't ready to accommodate these changes so rapidly. The globalization process for many of them was a bitter one rather than a positive one. A growing source of tension at the end of the last decade, and now at the beginning of this one, is the perception of many of the developing countries that Western nations are attempting to force economic changes on them at a pace that is greater, more rapid, than they are willing to accept or to force them to make policy changes for which there is insufficient political or social support.

The great lesson of American economic history was that sound economic institutions take years to develop and must develop in the unique historical, political, and social context of the nation itself. It has taken this country well over two hundred years to develop the institutions of economic governance that we now have. Many, in fact, have been instituted since the Great Depression, such as Social Security, the FDIC, the SEC, and a number of others. Remember that, for a large part of our history, we didn't even have a central bank. If the British, who were lending money to us in the 1800s, had insisted that we create one as a precondition for more loans, we might have put one in place. But there would have been so much resistance and resentment that it would not have functioned very well.

These institutions have to be grounded in local history, local culture, local social norms. They cannot be imposed from abroad. This is one lesson Americans need to learn when they deal with other countries.

A modern state needs to strike the right balance between economic turmoil and economic stability. There should be enough turmoil so that new ideas can emerge, new business models can replace old ones, less productive companies and jobs can be displaced or replaced by more productive ones, and vigorous competition can push people into better quality, lower cost production and better quality, low cost output of services.

Too much stability reduces these pressures and the potential for dynamic change.

Too much turmoil, on the other hand, creates enormous uncertainty, reducing incentives to invest, or eliminating the security required for people to take risks. In a modern economy, in this global marketplace, economic change is relentless, and that means great risk to old businesses, to old business models, and to old companies and major shifts in jobs among sectors. But societies can cushion this risk and make it less disruptive to social cohesion and to social values.

Each society must also find its own formula for balancing the role of the market with the role of government. The role of the market has grown greater and more extensive in virtually every country in the world. In my judgment, that is good for both economic and political reasons. But it's also true that a market economy can only thrive if the proper political, economic, and social institutions are in place or in the process of being put in place. That cannot be done overnight, nor can it be simply the result of transposing institutions of other countries.

The key criteria for economic success in this era are, in my judgment, the following: one, strong property rights. America's founding fathers saw this as a prerequisite for a strong market economy. These rights include intellectual property rights. That is of growing importance in a knowledge-driven economy. Physical property rights are also essential. These rights are necessary to encourage investment and also to protect the least powerful in society from arbitrary government action. Property rights are the essential bedrock of a well-functioning market system. You can look at countries that have well-established property rights and those that don't, and you can get a pretty good idea of which countries are going to at least have an opportunity for success in this global economy and which are least likely to succeed because they will not attract the kinds of investment or the kinds of intellectual effort that are required to make an economy work well in this environment.

Second is credible market regulation. This is also essential for a sound economy because it gives market forces in the economy great latitude but establishes a framework within which they must operate. One of the problems with many countries in Eastern Europe is that they attempted to operate the market without proper regulation. As a result, they experienced a great deal of chaos because the market operated without a political or legal framework.

Third is a sound financial system. That's critical to finance entrepreneurialism – critical to finance the kind of growth that is needed in this current environment. Countries that have well-regulated, well-functioning financial systems have an enormous advantage over those that do not, and are considerably less prone to crisis than those that do not. Examples can be taken from East Asia and Latin America, where the banking system has not been well regulated. Countries' banks got into great trouble. The weakness of the banking system and the regulatory elements of that banking system led to financial crisis. We, in our own country, are not immune. We had the S&L crisis in the 1980s, which was also the result of failures of regulation. Therefore effective regulation is an important part of economic growth and stability.

Fourth is a social safety net. This is an extremely important component of domestic policy and of international economic policy. Countries and peoples, societies, are much less willing to open up to imports from the rest of the world or to participate in rapid, tumultuous economic change if there is no social safety net. People who are displaced by domestic competition, by new technologies, or by foreign competition need to have a buffer. Society cannot just cast them aside. Developing countries are going to need to place greater emphasis on social safety nets, such as unemployment insurance and social security, just as we in the United States have. An interesting example of this is China. China knows that it has to make great changes internally to get rid of old inefficiencies. In order to do this, they need a social safety net so that people who are displaced will have a certain measure of support. For any economy that wants to participate in this highly fluctuating global economy, in this global competitive environment, a social safety net is extremely important.

Another key element is a fair and effective judicial system. The rule of law is an extremely important part of sound economic policy. This is true today, more than ever. This was the great legacy of John Marshall, in our own country, who understood that a sound economy required a sound and fair judiciary. Without rule of law, the powerful are able to dominate the less powerful. Outcomes are often arbitrary and corruption undermines both political and economic confidence. One can look at Russia as an example. The absence of a fair and effective judiciary presents a major economic as well as political problem.

Another element is transparency and press freedoms, which are particularly important because information is critical to the global economy and national economies today. If you're talking about an information-driven world, the press plays an important role in communicating information about companies and about governments to the average citizen. This serves to help them make decisions, to help them understand economic policy. The watchdog role of the press is particularly important in uncovering poor economic policy before it reaches crisis proportions.

In some of the countries in East Asia, governments might not have been able to push problems under the rug had the press been more active and vigilant at an earlier stage in the process, thereby perhaps averting the kinds of crises that ultimately occurred.

Again, to go back to early American history. James Madison understood this. The foundations of freedom of the press, and therefore of the information economy that we now experience today, were laid by the founding fathers over two hundred years ago. Other countries, I think, are seeing this as well. They are moving towards greater financial transparency in part because that is demanded by their own citizens, in part because the Internet and the global economy demand it.

The last point, and one I will elaborate on a little bit later, is broad-based education. You cannot participate effectively in a knowledge-driven world economy without an effective education system. This does not simply mean educating the elite, educating the engineers and scientists. It means educating larger and larger numbers of citizens in our own country and in other countries, as well. Other countries, countries that want to participate in the global economy, are going to have to spend a great deal more time and effort and resources educating their own citizens.

An interesting example of a country that had the foresight to do this is Korea. Even in the 1950s, when Korea was a very poor developing country, it spent a great deal of its resources educating the next generation of Koreans, because Koreans understood their key resource, their fundamental resource, was their people, human capital. And the economic strength Korea has today, notwithstanding the crisis in 1997-1998, is based primarily on one thing - education. They have no natural resources. They're not in a particularly hospitable part of the world. But they have excellent human talent. That was a product of their educational system. If you look at countries that have done very well in educating their citizens, they are well ahead of those that have not done so. In an increasingly vigorous, competitive economy, they can participate most successfully in the global economic system.

Countries can differ considerably in the way they implement these requirements. There is a multitude of ways, for instance, to organize economic security. There is a multitude of ways to organize unemployment insurance, labor markets, corporate governance, securities regulations, and tax policies. Rather than seek to impose institutions and practices on other governments, it is incumbent upon the United States and other industrialized countries to help them deal with the kinds of issues and policies I have identified in their own way, based on their own cultures and their own histories.

The next challenge is the challenge of education and training right here at home. Prosperity of the Information Age will depend greatly on the effectiveness of U.S. education. A credible test will be whether more Americans, particularly those in lower income groups, are equipped with the skills necessary to contribute to and participate in this country's prosperity.

This may sound like a domestic goal, but it is also crucially important to American foreign policy, both from a political point of view and an economic point of view. An America that is divided along economic lines, with a large portion of its population growing richer and another left behind, will not be a visionary or responsible world leader. Many Americans today oppose any organization with the term 'multi', 'international', or 'world' in the title, like the World Trade Organization, for instance. They are seen as symbols of rapid globalization, which threatens their jobs, their values, their sense of community, and over which even their government has little control. That has become a problem, particularly in Congress. When you get resistance to such things as fast-track legislation, and such legislation fails, you know that a country which was once the leader of the globalization process, the leader of free trade, has pulled back from this role. This is very dangerous from an American point of view and a global point of view.

Now the key, it seems to me, to having the United States administration enjoy the public support needed to play a strong global leadership role lies in something that John F. Kennedy once said about Franklin Roosevelt. He said that Roosevelt could be a good neighbor abroad because he was a good neighbor at home. He cared enough about the concerns of the average American and dealt with those concerns, so that he was able to garner the kinds of domestic support he needed to be a more active player in the world. Had there been divisions at home, had he been seen by Americans as neglecting the home front, it would have been much more difficult to play a strong global leadership role.

Today, America can not remain a strong international leader or a reliable friend unless more Americans are confident about their own economic futures. If large numbers of Americans feel threatened by new technologies and global trade, U.S. leaders will find it difficult to take constructive international initiatives. The president and Congress will be subject to pressures to shun multilateral institutions, reduce foreign assistance, and avoid negotiations to liberalize trade and investment.

Most Americans have gained considerably from a more open world economy, from the growth of foreign markets, and from access to competitive imports. But frequently problems created for the relatively few receive disproportionate attention. Benefits for the many are taken for granted. Hence the need for constant reminders of the difference between the world as it was between World War I and World War II, a world without multilateral financial or trade institutions which deteriorated into beggar-thy-neighbor policies and protectionism, and the world after World War II, where multilateral cooperation and freer trade underpinned prosperity in the U.S. and in many other nations, as well.

But there are groups that will continue to remain vulnerable to shifts in domestic and global competition. For these people, substantial unemployment benefits will be required if they lose their jobs. Portability of health insurance benefits, and a whole host of other things, also will be required. But the single most important step is to improve education and training. The better trained, the better educated Americans are, the more likely they will be to thrive in the face of competitive challengers, both at home and abroad. U.S. society will be less divided on economic issues, including international trade and investment.

The challenge will be particularly great because of demographic changes. The nation's overall workforce will grow more slowly in the future, due to a drop in fertility rates following the Baby Boom. Unless future generations of workers are more productive than the generations of workers they replace, U.S. growth will slow. Hispanics and African-Americans constitute a growing portion of the new workforce, yet public education in this country has a history of low success and low results in inner city communities from which many of these new workers will come. If this continues, the U.S. economy will suffer and social divisions in this country will increase.

If a foreign power were to destroy a third of U.S. factories, that would lead to war. If an environmental disaster destroyed a third of America's trees, that would produce mass demonstrations. Yet the U.S. is losing a far more important resource when 30% of American adults read at or below a fifth grade level.

In the nineteenth century, Britain was at the peak of its economic power. It had pioneered the industrial revolution. It was the most competitive economy on earth. It was considered to be invincible when it came to economic competitiveness as it entered the twentieth century. Yet the British made one fundamental error. The British elite failed to recognize the importance of educating the children of low-income groups. As a result, a large group of citizens were ill-prepared for the technology of the early twentieth century, the technology of industrialization that was sweeping Britain and other parts of the world. New machines needed people that were literate to run them. The fact that the British did not educate the children of the lower incomes very well meant that most of the country's workforce could not participate in the economy as it changed in the twentieth century.

Britain, in large part as a result, began to fall further and further behind. It is an important lesson for the United States today. Unless we are able to deal with our education problem, particularly to better educate the children of our lower-income families, we are liable to suffer a similar fate.

It is particularly urgent that we introduce in this country world-class educational standards, backed up by accountability, greater management control for principals, and improved teacher salaries. It is also important that the business community be the champion of education reform, because the American business community is going to require well-trained managers and well-trained workers, from whatever social strata they may come from. Unless we are able to train and educate more and more of our people, not just in primary school, secondary school, high school, and college, but throughout their lives, we will be at a disadvantage. That is the second challenge: American education and training, critical for our own economic objectives and critical to social cohesion in this country, as well.

The third major challenge is to see technology as a source of growth and cohesion, rather than let it become a source of division. An oft-cited concern by many developing countries is that new technology, such as the computer and the Internet, will favor rich people, rich nations, while pushing the poor into the economic periphery.

In fact, the history of the diffusion of technology is a more encouraging one. If you go back to Guttenberg's movable type, the telegraph, the telephone, electricity, the car, radio, television, all have become potent technologies in economic empowerment, and, in some cases of political freedom, for hundreds of millions of people around the world. Of course, many people do not have access to such technologies. Over two billion people around the world, for instance, have never even made a phone call. But this is the result of poverty rather than the fault of the technologies themselves. As one observer has put it, "The future is already here, but it is unevenly distributed." I think this is really what we see: a lot of new technologies, a lot of potentially very powerful technologies, but they tend to be concentrated in various parts of the world and stratas of society. Enhancing the opportunities of other countries, other parts of the world, to take advantage of new technologies is an increasingly important challenge.

The problem is that when technologies are first introduced, they tend to be used only by a relatively small number of people. They also tend to disrupt old practices, disrupt the workplace, cause new jobs to be created and other jobs to be eliminated, and they force a radical shift in business models. Only a relatively few skilled people can use these technologies at the beginning, and those who can normally command a sharply higher salary than those who cannot. The latter often feel threatened and are displaced. But over time, the new technologies become more user-friendly for a larger and larger number of people, and the wage gap begins to narrow. As less skill is required and more people are trained in these technologies, the productivity of the entire economy increases and the technology becomes a widely empowering factor. The Internet will likely exhibit the same kind of evolution.

However, the new economy is not just about technology. It is also about revolutionary business models, policies that enable entrepreneurs to thrive, holding regulations to a minimum, protecting intellectual property, capital markets that support new ventures, empowering kids by wiring schools, training teachers in computer skills, and providing low-income homes with access to computers.

Not all societies see intuitively, as most Americans do, the benefits of letting their societies be exposed to foreign ideas through the Internet. Old-style foreign policy negotiations and rhetoric about the virtues of free markets and better information flows will not convince many Internet skeptics. They will not prevent episodes of e-protectionism, particularly in developing countries that believe they can not compete with the more advanced economies.

If nations are to accept the minimally-regulated, market-oriented approaches to the Internet and e-commerce, they will need to see its potential benefits for their own societies - increased jobs, increased exports, and technological development. The United States and the European Union have a major responsibility to play here in helping countries both to see the benefits of Internet technology and new telecommunications technologies and to develop policies which enable these technologies to take root. They are, by and large, empowering technologies. One of the most important things we and other countries in the industrialized world can do is to help these countries to understand how they can benefit by participating in the global information network.

There are numerous and very interesting examples of the benefits. In Bangladesh, for instance, there is a company that sells or rents cell phones to very poor people in villages throughout the country so they are able to communicate with markets in larger cities. This has led to an enormous boom in agricultural productivity, because people know what price they are going to get when they take their product to town. They know what is being bought today at what prices. They know when the market is open and when it is not open. And they know how to buy fertilizer on-line using their cell phones. A range of things could be done, even in the poorest countries, to enable information technology, telecommunications technology, to enhance productivity and competitiveness. So this is something a great many people can benefit from, not simply people in industrialized countries but throughout the world.

If, in fact, we can actually take full international advantage of the information technology revolution, we can do something that I think is symbolically and economically very interesting. The great symbol of the Cold War, as I mentioned earlier, was the Berlin Wall. It symbolized the ideological, political, and physical barriers between the East and the West, between the free markets, free economies, the free nations, and those behind the Iron Curtain. Now that the Berlin Wall is down, the Internet and global telecommunications provide the opposite. They break down barriers between economies and enable communication to take place across cultures and across barriers. The Internet is nonideological and nonpolitical. And the telecommunication revolution, the Internet revolution, are pulling the world together. And opening the flow of information is critical to a knowledge-driven economy.

The last great challenge is to make globalization work for a larger and larger number of people. We saw, in the Seattle demonstrations against the World Trade Organization, manifestations of a feeling that globalization is somehow disadvantageous to large numbers of people, particularly poor people in the developing nations. Many of these people were, in fact, asking the right questions but they were coming up with the wrong answers. While the principles that have motivated them have been commendable in some circumstances, most of them fail to understand, or do not wish to understand, the fact that international flows of trade, investment, and technology have produced enormous improvements in the lives of hundreds of millions of people. From China to Chile to South Africa, all around the world there are documented cases of trade and investment and technology leading to dramatic improvements. The problem is these people focus disproportionately on the negative aspects of globalization and international institutions.

Some of those problems need to be addressed, but the fact is that poverty, environmental problems, and the kinds of problems these people have focused on were problems that were not created by global institutions or by globalization. They were the result of policies of the countries themselves or, in many cases, the fact that these countries had not gone through the development process. The state of development of many of these countries renders their economies weak and less competitive, less able to deal with environmental problems. In fact, if you look at the environmental problems, those economies that were the most closed during the Cold War tended to be those that had the worst environmental problems and the worst labor practices. The more insular the economy, the less exposed it was to global change, to global information, to global investment, and the worse its environment tended to be, the worse its labor practices tended to be, and the worse its human rights abuses tended to be. These, actually, were the result of insularity, of not being a part of the global economy.

Mexico's president, Ernesto Zedillo, put the issue quite well when he said: "In every case where a poor nation has significantly overcome its poverty, this has been achieved while engaging in production for export markets and opening itself up to the influx of foreign goods, investment, and technology. That is, by participating in globalization. Truly progressive minds sincerely committed to the advancement of poor people in developing countries should be converted to foreign allies, not enemies, of globalization." I think this puts it very well.

The facts support what President Zedillo said. Countries that have engaged substantially in international trade and investment, and undertaken deregulation and privatization of state enterprise within an effective institutional framework, have much higher growth rates than those that do not. Their people have enjoyed increased longevity, improved literacy, higher overall standards of living, and greater political freedoms.

This is one of the important messages of globalization. That is, not to be distracted by those that want to use the concerns about globalization to force countries to impose new barriers on trade, new barriers to investment, new barriers to information flows, but to help countries to understand the benefits and to help them to develop the kinds of domestic institutions that are required to enable them to take advantage of globalization and buffer their citizens from the volatility that international competition sometimes leads to, and that international financial crises often lead to. So when you look at globalization, globalization itself is neither a good thing nor a bad thing. It can be very beneficial to countries that utilize it effectively, that have the right domestic institutions to take advantage of it.

On the other hand, if globalization takes place, or trade, or investment, or information flows, or technology flows take place, with respect to countries that do not have sound domestic institutions and economic governance, then those globalization forces are frequently seen as a threat. Countries that participate in them the are more vulnerable, in some cases, or feel more vulnerable, to the turmoil and volatility which the global economy frequently can lead to if there is a financial crisis, or if there is a crisis in the international trading system. So the two really go hand in hand: sound globalization and sound domestic institutions need to be advanced together. One of the goals of the United States and other countries should be to help these countries not only to see the benefits of globalization, but also to establish the kinds of domestic institutions that enable them to take advantage of it and see it as an opportunity rather than a threat.

Today, events are moving very rapidly. We are deluged with so much information that we risk failing to grasp what is genuinely important. To put this in perspective, and to help us understand some of the forces that are now underway in the global economy, I want to leave you with the words of T.S. Eliot in “The Rock.” He asks, “Where is the life we have lost in living? Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?” These are the questions we should repeatedly ask ourselves and our societies as we move into this new era of increased globalization.

Globalization is a great opportunity for all of us, but presents enormous policy challenges. It is really up to us, our societies and other societies participating in this process, to see through all the negatives, through all the turmoil, through all the difficulties that we encounter on a day-to-day, week-to-week basis - stock market declines, volatility of economies - and realize that a very, very powerful set of developments have taken place since the end of the Cold War. Market economies play a more important role in the global economy. Market forces are playing a greater role in virtually every country in the world. Democracy in Latin America is a much more powerful factor than it was fifteen or twenty years ago. A number of very positive and very powerful developments have taken place that open up opportunities for the average human being around the world that he or she has never had before. But it is going to require a great deal of wisdom to make sure that this process benefits a wider and wider number of people, and that our own citizens are well educated and well trained so that they see the global economy and globalization as an opportunity rather than as a threat.

American economic leadership in all of these areas is critical. America has been the leader of the world economy and world political system since World War II. It is imperative that we maintain that leadership. This is exactly the wrong time to pull back. If we are able to advance the kind of economic objectives that have enabled us to succeed so well in the global economy, without trying to impose our institutions on others, I think we can continue to maintain a very strong and very effective leadership role. We have a great responsibility. We have a burden of proof to demonstrate that we are able to carry through with our leadership role now, as we have in the past. It is not just important for the world economy. Every American citizen depends today to a greater degree on the global economy than ever before, and therefore good global economic policy on the part of the United States is very good domestic policy.

Thank you very much.

Question from St. Louis Post-Dispatch:

What sort of practical advice would you have, Mr. Hormats, for the Bush administration at this moment when it is seeking to make the case both for specific bilateral free trade agreements and also for the renewal of fast-track authority, given the softening of the economy and the fact that you've got a lot of skepticism among the Democrats? How does this moment compare to others that you've experienced in your career? How does the administration move forward now?

Hormats:

Well, that is a very interesting and thoughtful question. When I was in government, Henry Nau, who is here, and I spent a great deal of time trying to deal with just that kind of issue. There's never really a good moment, in the eyes of some people, to liberalize trade. When the economy is going very well, people say, "We really don't need it. We're doing fine, we don't need more export markets." And when the economy isn't doing well, people say, "Well, we might need more export markets but we're certainly not going to open up our own economy further to imports because we don't want more foreign competition."

There is a very compelling argument that the president can make for expanding trade opportunities. First of all, we've been more or less sitting on the sidelines, when it comes to trade, for the last several years. The European Union has been negotiating the expansion of its own trading relations with countries in Europe, particularly in central Europe, as well as making deals, free trade agreements with countries in this hemisphere. We've seen relations with the EU expand in our own hemisphere, Mexico, Canada, our partners in NAFTA making bilateral agreements. We've been sitting on the sidelines while these agreements are made which, in one way or another, are disadvantageous to American exports - manufactured exports, farm exports, services exports. The regional, or bilateral, free trade agreements made by other countries without the participation of the United States puts American exports to many of these countries at a disadvantage. Over thirty of these agreements have been negotiated over the last few years and the United States has participated in just two of them. And those were very small countries; one was Jordan and the other was Israel. They are not major agreements. NAFTA is, of course, the biggest regional free trade agreement that has been made, and that's really the last major agreement that the United States participated in.

The point of this all is to say the longer we wait on the sidelines, the more other countries are going to negotiate deals in which we're not a part or which are disadvantageous to the world trading system, when it comes to American exports. I had the chance to testify on this subject a number of weeks ago. I think a number of members of Congress understand that by sitting on the sidelines, we are simply out of the game. We've got to get back in the game. To get back in the game, we need authority from the Congress to be credible negotiators. So the first argument, in a way, is really a defensive one. You've got to deal with trade because other countries are and we've got to get back in the game ourselves.

The other is of a different nature. If you look at the entrepreneurial spirit in this country, if you look at the high-tech companies, if you look at virtually any major sector of the economy - agriculture, financial services, Microsoft, Cisco Systems - all of them depend heavily on global markets. If you really want to keep investment up in this country, particularly in the most productive sectors of the economy, you have to do two things. One, you have to keep markets open. And two, you have to advance the opportunity of expanding your markets around the globe. So it is both to avoid our being shut out of markets in the trade negotiating authority and enable the most productive companies in the United States.

The problem is that a lot of Americans are concerned that imports are going to come in and displace American jobs. There is a great irony here. Remember Ross Perot. After NAFTA we were going to lose all these jobs. Jobs were going to go downhill, we were going to have a lot of unemployment. In fact, until recently, during the whole period in which NAFTA was being put in place, we've had an increase in employment in this country. We've had an increase in employment and we've been able to take advantage of opportunities to expand trade with Canada and with Mexico. To the extent that you can lock countries, ourselves included, into an international rule of law - which is really what the framework of the World Trade Organization provides - you've done something to establish rule-based trade. That is exactly the kind of thing that we were promoting in the 1950s and which has been so successful in the United States.

I don't think we're ready to begin a global trade negotiation right away. I think we're going to have to move ahead with a couple of bilateral agreements – Vietnam and Jordan have already been negotiated, Singapore and Chile are probably next. Then at the same time, or perhaps a little bit after, we should move towards the Free Trade Area of the Americas, which the president is going to talk about in April in Quebec City. This is very important. I think if we can get public support in this country for free trade within the Americas, it would be a step forward. Once we do that, then the Europeans and the Japanese, who have been reluctant to participate in the global trade round, may be a little less reluctant to do so, and then we'll have an opportunity to begin negotiating a global trade agreement.

But I think it's very much in the U.S. interest, and the interest of Japan and Western Europe to have a global round of negotiations. Fragmenting the world into regional trade agreements, in the end, is less efficient than a global system. And I think that leaders in Washington, Tokyo, and Brussels understand that sometime in this decade, we need a global trade negotiation to deal with agricultural issues, service issues, a whole host of issues that are posed by the new economy. But it's not going to happen right away because there's not a consensus here for it, there's not a consensus in Tokyo, there's not a consensus in Brussels, and many developing countries feel that they have not gotten enough out of past negotiations. They don't want to participate in a global round either. So for the moment, I think we're really confined to bilateral agreements, and perhaps a free trade agreement of the Americas. It would be difficult to do, but I think far more plausible than the possibility of a meaningful global agreement at this point.

Question from Edie Wilson, World Bank:

As globalization settles in, a very specific question. The United States government statistical services have traditionally been some of the most important measures that we use as a basis for being able to see how globalization and international economic trends are happening. Do you think the U.S. government has been investing sufficiently in keeping up with the kinds of measurements we need to have a grip on what's going on?

Hormats:

In short, the answer is no. We have great difficulty measuring productivity. The Federal Reserve chairman himself has made the point repeatedly that productivity in this country, in real terms, is higher than measured productivity, and in some cases by substantial amounts. So we really don't even know how productive of an economy we are, although I think the number is actually quite substantial. When you look at trade, some of the biggest categories in our trade statistics are errors and omissions. That tells you something. There are a lot of parts of our statistical universe that are very incomplete.

One of the things I'd always hoped we would do is to be able to go Congressional district by Congressional district to explain to each member of Congress how much his or her district depended on exports. We are able to do that, but with a lag - when I was in government, it was like a ten-year lag. It doesn't really convince a member of Congress. You show him these numbers and he says, "Well, that was ten years ago. I don't care about ten years ago." So there are a whole range of things that, I think, are needed to enhance our statistical capabilities.

The other thing is that I don't think we understand one other very important calculus in the new economy. That is the impact on the average American household of financial volatility. Today, 50% of American families own stock. But two decades ago, it was about half that, about 25%. Therefore, the psychology of the stock market and how it impacts the psychology of individual households is not something we've had to think about very much because relatively few Americans owned stock. Now that half of American families do, what the Federal Reserve Board does, insofar as it has an impact on stock markets, has a very direct effect on the purchasing attitudes of a very large number of people. One of the things that surprised the Federal Reserve Board over the last six to eight months was not just that the economy slowed down because the Federal Reserve was raising rates, but the very sharp adverse effect that had on the stock market and, in turn, the very sharp adverse effect that had on consumer confidence. Consumer confidence normally collapses because there is a lot of unemployment. We haven't really seen that. What tended to happen was, as the market went down, those Americans, a large number of Americans who owned stock, began to lose confidence. That created the extremely sharp decline in consumer confidence on which the Fed has remarked on numerous occasions. That caused alarm about the future of the American economy.

So I think we don't really have good numbers. I also don't think we have a very good sense of how the psychology of this country has changed as a result of the stock market boom and the stock market bust, and the fact that so many people now are affected by it -- which was not the case a decade or two ago. So there is a lot we have to learn about the new economy and we shouldn't go around lecturing other countries, because we ourselves don't know as much about our own economy as we should.

Question:

When presidents talk about the benefits of trade, and opponents of trade talk about the costs, I was wondering about how to deal with the reconciliation of these opposing views.

Hormats:

One of the things I think you're going to hear this week, or next, is Alan Greenspan is going to testify before the Senate Finance Committee on trade. I testified before the same committee a few weeks ago and I sent him a copy of my testimony. I discussed this with him. He obviously didn't tell me what he was going to say, but my guess is that you will hear something that normally you don't hear before committees in the Congress – and that is the great advantage of imports.

I think that the benefits of trade are very clear, imports just as well as exports. If you look at the breadth of choices the average American consumer has now in clothes, shoes, televisions, and any number of things, many of those items would simply not be available, at least not at the same price if they were produced only in the United States. Barriers to imports are a tax on consumers, plain and simple. If we could explain that to people, they will perhaps better understand it is a tax just like any other tax. If you impose a barrier on imports, it raises the price, not only of imports, but also of other products that are made in the U.S. – perhaps not to the same degree, but it does raise the price the consumer pays for most goods. That is one negative to protectionism.

The second is, go back to the automobile industry in the 1980s. They didn't know it at the time, but imports from Japan were a very powerful factor in strengthening the American automobile industry's supply response. They realized that Japanese cars were very competitive, were very high quality, and they realized also that if they were to survive, they had to improve the quality of American-made cars. So that competition of imports from Japan was an extremely important factor in the restructuring of American industry in the middle part of the 1980s. I think now you might grudgingly get some auto CEOs in this country to admit it, but it is certainly true. You can see the improvement of American cars as a result of that period, particularly the efficiency of oil consumption. Foreign competition is an extremely important pressure point for encouraging, and in fact forcing in some cases, domestic companies to reform, to restructure, to become more competitive, to become more quality-conscious.

Competition is extremely important world-wide. All you need to do is look at countries where their market is shielded from foreign competition and you can almost bet those countries are less competitive themselves, because they have not had to deal with foreign competition. Brazil and computers is a great example. They thought, "Well, we'll protect the Brazilian computer industry by imposing protective barriers on computer imports." What happened? The Brazilian computer industry, needless to say, did not compete with IBM and Compaq. But the other part of the problem is that the people who use computers in Brazil were deprived of the state-of-the-art computers that they would otherwise have imported from the United States or Japan. They didn't get those computers and a lot of other industries suffered a competitive disadvantage because they didn't have state-of-the-art computer technology.

So imports really do play an important role, and I think you're going to hear that from Alan Greenspan. I think that the benefits of imports are an important part, in terms of the well being of the consumer, of enhancing and forcing competitive pressures, and of giving people the opportunity to benefit from the latest technology from around the world. I think that needs to be said. Your question is a very important reminder that imports do play a role. People who are in favor of expansion of trade should be in favor of expansion of imports.

I would like to hear the President talk about the benefits of imports. He is going to go to Quebec City, as I mentioned, in April for the conference on the Free Trade Area of the Americas. I genuinely hope that before he does so, he puts that meeting in the following context: America has done very well over the last fifty years by leading the effort to expand global trade. The context is that trade is an increasingly important part of the American economy, both imports and exports. If by backing off of global leadership we try to protect our economy from imports or simply don't take the next step toward trade liberalization, it's going to be disadvantageous for Americans.

Another point that I'd make, and that our Japanese friends know better than I do, is that global economy is not just about trade, it's about investment. As you've indicated, a lot of foreign investment from Japan in the auto sector has taken place in the United States and more and more American companies are investing abroad. So liberalization of trade is not just about liberalization of trade, it's about liberalization of import barriers, it's about liberalization of opportunities to make investments around the world. National treatment for foreign companies, a whole range of things that are very important to enabling auto companies and other companies from Japan to invest here or other parts of

Asia and American companies to invest abroad and be treated in the same way that national companies are. So it's also about the benefits of investment. I think President Suzuki put it very well in his opening statement.

Question from Ambassador Nobuo Matsunaga:
[inaudible]

Hormats:

I should say that Ambassador Matsunaga and I were sherpas together for many years, so it is a great pleasure to see you here. We spent a lot of time putting together plans for economic summits. Some were more successful than others, but certainly we developed a very close friendship in the process. I'm very glad to see you here, and as always you've asked two very good questions, so let me try to address them.

I think you're right, there's always a danger of regionalism, that instead of being a stepping stone toward globalization, it can be used as a framework for restricting imports. That always is a risk. I think that's why there has to be a balance. If the United States decides it wants to move ahead toward a Free Trade Area of the Americas, it should do so. But it should also say that other countries that want to provide the same liberalization to countries of this region get the same benefits, so that it's a kind of open regionalism as opposed to a closed regionalism. I think that's very important. How you structure a regional deal – whether it is a very restricted one or whether it is one that invites others to participate if they allow the same degree of liberalization that the free trade agreement permits among its participants – is important in judging its effect. The latter of the two can be helpful. I would also say that for the United States, simply settling for regional trade expansion should not be our ultimate goal. We may not have the consensus for a global round of negotiations yet. But we should try for one ultimately at the global level, rather than stopping at the regional level, for many of the reasons I have mentioned.

Now, on the U.S. economy, very briefly. It's more than just a stock market problem. As the U.S. economy grew over the course of the 1990s, you had this big investment boom that was predicated on continued, very rapid growth. What happened was that, as a result of the profitability and productivity of American companies, and the Internet boom, stocks went up and the American household sector became a negative saver. As a result of this, also, you had a lot of capacity being put in place. Once the Federal Reserve decided the economy was overheated and tried to slow it down, a lot of the growth projections on which the new high-technology investment was based simply didn't materialize. We found ourselves with a lot of excess inventory, a lot of excess capacity in the telecommunications and high technology sectors, and a negative household savings rate for the first time since 1959. We had large corporate debt in this country, much larger than we traditionally have had.

So whatever the Federal Reserve does, we still have to work out these imbalances, slow down the rate of consumption, increase the rate of savings, reduce the rate of corporate investment, and try to slow down the buildup of the U.S. current account balance. All that essentially means considerably slower growth over the next two years than we've had over the last four or five. The Fed can avert recession, but that is the best it can do. I don't think it can, or should, aim to restore the kinds of robust growth rates, 4% - 5%, that we've had during several quarters over the past four or five years. A slower growth trajectory, of 2.5 or 3%, is probably where the Fed is aiming, but we're not going to get there right away. But it's not just a stock market problem, it's an overall adjustment problem from an investment boom.

Question:

First of all, thank you very much. Listening to you is like listening to Beethoven's Ninth Symphony. But I would like to ask you something. You mentioned several times regulation. Unfortunately, as an Argentinean citizen, I have seen that over-regulation in Argentina replaced the most brutal form of despotism with a fake market-oriented economy. Once again, the bureaucrats are deciding what you should do, how you should do it, paralyzing every effort for being more innovative or more creative. Don't you think that excess of local regulations can eliminate completely the competition that we badly need in those countries that are underdeveloped at this moment?

Hormats:

Yes, I absolutely do. As I tried to point out at the beginning, you have to have the right balance between order and chaos. You should have enough competitive juices in the economy so that new ideas can percolate up and be financed and be put in place, so that new business models can replace old ones, so that new companies can replace old ones, so that new productive jobs can be created. I think that is imperative for any country that wants to participate in the modern global economy. You have to have that intense internal competitive environment if you want to compete externally. You also have to be open to external competitive forces because they are the things that prod the internal economy to change, to undertake new and better ways of doing things.

What I meant by regulation is, I think that balance is critically important in the regulatory process. You need to have a Securities and Exchange Commission to have a measure of regulation in the financial markets. You need to have a Food and Drug Administration so people can't just sell any drug they want. So that people understand what they're buying, you need to have some kind of regulatory body. This is true with federal deposit insurance, a whole range of things. The key point, however, is that those should be supportive of the market, that they should give as much latitude to the market forces as possible. The market forces are what drive growth. Regulation provides a framework, but it should provide a broad, not a narrow, framework. It should allow companies to exercise the maximum discretion. The Federal Reserve Board and the SEC do this reasonably well. They do not over regulate the financial system in this country. They provide a framework within which a very, very vigorous financial system can operate. The Food and Drug Administration provides a framework in which a very, very competitive American drug industry can operate. One can debate whether the country is too tough or not tough enough on anti-trust legislation. Although we've had periods when the government has been very restrictive, by and large the government has allowed a fair amount of latitude for mergers and acquisitions. It has only been restrictive in a very few cases, and some of them have been very public, but the numbers have been relatively few.

I think that the government is always going to insist on playing some kind of role, but the greater the latitude it provides for the private sector to operate, the less regulation, the better. But not zero regulation. You need some credible authority to provide a framework. Unless one is a total libertarian, it is hard to imagine that the economy can operate without some kind of framework. But finding the right balance is extremely important. Some countries want more regulation and others less. My own view is that to the extent that you can broaden opportunities for the private sector, for new ideas, for competitive forces to operate, the more dynamic the economy will be and the higher the growth rate the economy will achieve. So in that balance, I'm for moving, as far as we can, away from regulation, but not eliminating it. We need to make sure that when it's done, it is very open, very transparent, that the private sector has an opportunity to comment on draft regulations and to have a dialogue with the regulatory authorities because regulations are often imposed by people who may not fully understand the implications.

Question from Bill Duncan, JAMA:

Again, I wanted to join the others in thanking you for a very insightful presentation and also for the kind words you said about the role of the Japan Automobile Manufacturers Association and its members in this country. My question is really a macro question following Ambassador Matsunaga's question.

We have gone through a decade of extraordinary prosperity, and in fact we haven't really had a major recession since 1980, although there was a downturn in 1991. During this period, globalization is expanding, as you pointed out, very dramatically. So, in a sense, globalization has not really been tested by a major cyclical downturn. You indicated that we might be in for sort of a u-type pattern in terms of the cyclical situation. But if we have a sharper downturn, what would you see as the vulnerability of globalization and the international economy to currency flows and rapid volatility currency flows, particularly given the rapid increase in investment and mutual holdings of currencies over the last decade?

Hormats:

I think the globalization of international finance, which is the point you addressed, is one of the more dramatic elements of globalization, as you correctly note. The globalization of finance has grown at a rate even more rapid than the globalization of trade. The magnitude of foreign currency transactions is staggering relative to what it was ten years ago and cross-border merger and acquisition activity has increased tenfold over the last ten years. Cross-border acquisition of stocks has increased by virtually the same amounts. A much greater increase in financial flows than trade flows. That does provide vulnerability, as you correctly pointed out, and it underscores the importance of good, sound regulation. You're not going to control it. The experience of countries that attempt to impose currency controls or capital controls is normally not a particularly good one. But the problem that you have identified is significant. It is certainly on the minds of a lot of Asian countries simply because money left in droves, both money in the stock market and money through the banking system, in the latter part of 1997 and the early part of 1998. I think it remains an issue.

There are always going be financial crises. We, in the United States, had them virtually every twenty years in the 1800s. They called them 'panics'. They happen whenever there is a lot of money moving around. It turns out, the reason we now call them 'depressions' is because Hoover was looking for another word, so he said, "We shouldn't call it a 'panic', we should call it a 'depression'." I'm not sure it did him any good. But this was his contribution to the economic lexicon. The fact is, in a global world with a lot of money, we're going to have 'panics' from time to time, either panics out of dotcom stocks, or panics out of countries, panics out of currencies, they are going to be with us.

Now how do you deal with them? They do run the risk of impeding globalization. But the very interesting thing is, if you look at East Asia, the countries that suffered enormously from the volatility of the 1997-1998 period, very few of them, for any length of time, imposed trade restrictions. Malaysia had capital controls for a period of time, but those have more or less been eliminated now. Very few of these countries resorted to trade restrictions, I think, for two basic reasons.

One, because they were part of a global trading system, with global rules and global responsibilities and global regulations. They were not independent actors, they were part of a system, and they knew that if they imposed restrictions, there would be penalties placed upon them by the global system, the WTO.

Two, they also knew that even aside from that, they were part of an interdependent global economy and if they imposed restrictions, other countries, whether or not there was a WTO, would impose restrictions on them. So it was both the rule of law, as a result of a global trading institution, and their own sense of self-interest as part of a global economy that limited the degree to which restrictions were imposed. I don't mean there weren't a few. There were, but to a very limited degree. Mexico, in the tequila crisis, imposed no restrictions on imports from the United States because it was part of NAFTA, because it understood that the rules of NAFTA were pretty clear and they couldn't do that.

For Americans who object to global rules, the WTO, they should bear in mind those rules have actually been very effective in limiting the degree to which countries that are in great economic distress, as the Asians were and as Mexico was, impose barriers on trade. It doesn't mean our exports don't suffer, because of course their countries experience weak growth. But they don't suffer because of conscious decisions by these countries to impose trade restrictions. I think that is an enormous strength of the global economy. The point I tried to make is that the last decade contrasts sharply with the period after World War I, where if a country had a problem, one of its earliest responses was to impose trade restrictions. Beggar-thy-neighbor policy. It was very disruptive, politically and socially and economically.

Having global institutions has, I think, been an extremely important way in avoiding those kinds of restrictions. Therefore, I think that to the degree that we can continue to lead the world, bring more countries into that rules-based, market-based, global trading system, we'll all be better off. They will be better off, too, because big countries like the United States cannot arbitrarily impose barriers on them either. It is difficult for even the most advanced countries to penalize smaller countries by imposing arbitrary barriers on them. So it is, by and large, a very good situation.

Is the WTO perfect? Has it made mistakes? Sure it has. But people who blame poverty and environmental problems and poor labor standards on the WTO are missing the point. Those problems were there well before the WTO and are largely domestic ones. They are not imposed by globalization.

We've got to be much more active in underscoring the benefits of trade, the benefits of multilateral institutions, and not allow people to undermine them and push us back to a protectionist economy, because the poor are the people who would suffer most from that. They're not going to benefit. We will all lose from that, but the poor will lose the most. So that is exactly the kind of argument we ought to be refuting, very clearly, not defensively, in a very energetic way.

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