

# Globalization and the Opening of Mexico

*The landmark election of a new government this July demonstrates how far Mexico has come in its political and economic reform efforts. In recent speeches given at the US Chamber of Commerce and at the Center for International Private Enterprise, President Ernesto Zedillo and Finance Minister José Angel Gurría underscore two important points. First is the importance of globalization and free trade to the strength of Mexico's economy. The second one is how globalization has helped steer Mexico toward a democratic transformation without having to undergo an accompanying economic crisis.*

*The text of President Zedillo's presentation follows.*

**F**ree trade has been by far the most powerful impetus for the growth and modernization of our economy. Unquestionably, NAFTA is now a forceful and thriving reality. Early skeptics and adversaries of NAFTA have been silenced by the sheer force of facts.

The increase of trade among the three partners has surpassed the most optimistic forecasts. By the end of this year, Mexican-United States trade alone will have increased almost 200% since NAFTA came into effect. Consequently, Mexico recently replaced Japan as the second trading partner of the US, just behind Canada. Mexico now exports a lot to the United States, but also imports a lot from it. Mexico buys many more US products than the United Kingdom,

France and Germany combined—and more than twice the rest of Latin America buys.

Our open market policy is not limited to NAFTA. More than any other country, Mexico has pursued free trade agreements with other potential partners.

We are leaders in free trade agreements in Latin America. Such agreements have been established with Chile, Colombia, Venezuela, Bolivia, Costa Rica, and Nicaragua. In a few days, I will have the pleasure of welcoming to Mexico the presidents of Guatemala, Honduras, and El Salvador to sign a free trade agreement with these three countries.

Furthermore, we have just signed a free trade agreement with Israel and have become the first country to successfully negotiate a

free trade agreement with the European Union. On July 1st, Mexico will be in the unique position of being a free trade partner with the two largest markets in the world: North America and Europe.

In the years to come, these accords will allow Mexico to enhance its already strong leading role among emerging economies both as an exporter and as a destination of direct foreign investment. It will mean more good business opportunities for US companies and, above all, more jobs and better incomes for Mexicans.

Like most of you, I am convinced that free trade and investment create development opportunities for any country, especially for developing nations. It is for this reason that I have taken every opportunity to express my very strong

disagreement with those who actively oppose further trade and investment liberalization. Either consciously or unconsciously they are working against the interests of the very same people they sometimes claim to defend: the people most in need within developing countries.

Indeed, opponents of trade liberalization frequently claim, with both altruistic and paternal turns of phrase, that their activism is actually for the sake of poor people in less advanced countries. This is far from true. The evidence of a strong correlation between a country's openness and its economic growth is now very well documented.

In every case in which a poor nation significantly overcame its economic backwardness during the last century, the solution involved production for export markets and opening to an influx of foreign goods, investment and technology. It is perhaps for that reason that some groups, rather than relying on traditional and already discredited protectionist arguments against free trade, are now resorting to seemingly more subtle excuses for protectionism that are equally mistaken.

### Trade improves labor conditions

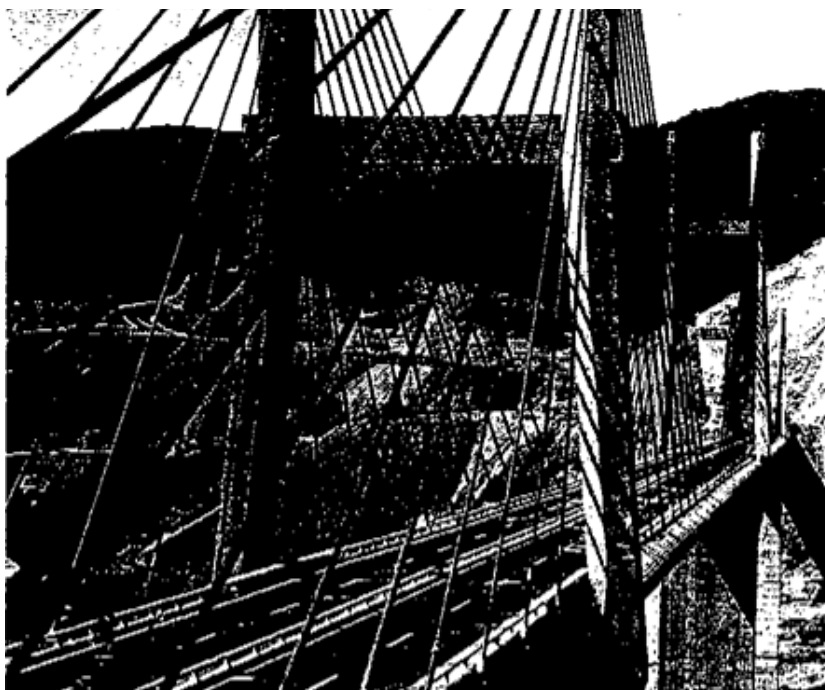
Take the pretext of the rights of workers in developing countries. The fact that wages and social benefits of workers in poorer countries are lower than in developed countries is used as an argument for the global adoption of homogeneous core labor standards. These persons even want to enforce such standards with trade restrictions. Of course, it is a legitimate objective that, as early as possible, wages and working conditions should tend to equalize among countries. But it must be recognized that such a goal cannot be achieved in the short term and obviously not as the result of wishful thinking alone and, least

of all, by obstructing free trade and investment.

Let us never forget that open economies tend to converge, while closed economies do not. In the absence of absolute free labor mobility, trade is actually the most powerful instrument for making labor conditions converge across countries in the long run. For the most part, trade occurs now precisely because countries have different conditions, including their labor situations. In the foreseeable future, it

that, for most people in developing countries who work in trade-related activities, their jobs mean a significant improvement with respect to their previous occupations. Quite often these jobs are a significant step toward better opportunities.

Of course, national governments—as well as multilateral institutions such as the International Labor Organization—should safeguard the rights of workers with fair and modern legislation, proper agreements and even better en-



*Mexico is rapidly improving its infrastructure to capitalize on foreign markets.*

would be absurd to restrict trade because of varying labor conditions in different countries.

To make their case, proponents of global labor standards repeatedly point to the still low wages and other labor conditions of workers in the trade-oriented activities of developing countries. They want to ignore the fact that usually the alternative for those workers is extreme rural poverty or a marginal occupation in the urban, informal sector of the economy where hardly any labor rights can be made effective. They also overlook the fact

that, for most people in developing countries who work in trade-related activities, their jobs mean a significant improvement with respect to their previous occupations. Quite often these jobs are a significant step toward better opportunities.

### Exports reduce polluting jobs

I am equally skeptical about the environmental arguments against free trade. I am a strong advocate of protecting the environment, but I also strongly believe that, on balance, economic integration tends to improve—not worsen—the envi-

ronment. Since trade favors economic growth, it secures at least part of the necessary resources to preserve and heal the environment. Higher incomes from trade-related economic growth also help to strengthen the demand for an improved environment. Furthermore, it is not uncommon that employment opportunities and export-related activities encourage people to give up highly polluting, marginal occupations.

trade, but to promote and enforce stricter controls over the environment and make polluters pay.

Time prevents me from reviewing in detail other arguments that have been recently raised against free trade. I would simply submit to you that some of them are based on a legitimate concern. But, in my view, they are erroneously included in trade liberalization discussions.

Let me emphasize that neither I nor, I hope, anyone else would

prevail in the world. Again, I have to disagree with them.

People are excluded from development not because of globalization, but because without adequate education, health, nutrition, other essential services, and basic infrastructure, they are not really free to participate in the opportunities that exist within a dynamic, open economy. Little can be done by open markets to correct such an unfair situation. In fact, this is not the role of markets, nor are they capable of doing so. To correct such exclusion requires strong government intervention in the form of active, coherent and efficient social policies.

This is a powerful reason why my administration has given the highest priority to such policies, as attested by the evolution of social spending by Mexico's federal government during recent years. Without forsaking fiscal discipline measures, federal social spending has consistently increased by any measure since 1995. This year it will reach its highest historical level.

Needless to say, social problems cannot be solved by government in a single term in office. Thanks to more resources and proper policies—and notwithstanding our very rapid population growth—we have been able to make significant advances in education, health, social security, and basic services in the fight against extreme poverty.

I do want to emphasize that having made progress and improved social indicators does not in any sense mean that we are where our people want or deserve to be. Clearly, there is much that remains to be done before we attain full social justice. But we Mexicans have achieved a great deal these past years and have clearly indicated that we are moving in the right direction. 🌍🌱

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Mexico's experience is a good case in point. As our economy has opened, our environmental standards and their enforcement have toughened significantly. Industry owned either by nationals or by foreigners is much cleaner today than it was when Mexico had a very closed economy. During the NAFTA era, no case has been reported of a plant moving south of the border to avoid stricter environmental standards. On the contrary, many examples can be found of people shifting from highly polluting to environmentally friendly activities, thanks to the new opportunities offered by international trade.

### Stricter environmental controls

People who oppose trade liberalization and who use the environment as a pretext should recognize that the right answer in dealing with economic activities that produce pollution is not to forbid

claim that access to free trade and investment is sufficient to achieve sustained development and overcome poverty. Much more is needed in terms of sound macroeconomic policies, domestic liberalization, permanently increasing investment in education, health and human capital (especially for the poorest), as well as strengthening of democratic institutions, including those that guarantee the rule of law.

It is true that open markets by themselves cannot make the benefits of economic growth reach the population of poor rural and urban areas. Without effective policies, there is always a risk that the most needy people could be excluded from the benefits of economic development. Some would say that such exclusion is inherent to trade globalization and would go so far as to blame globalization for the poverty and social inequalities that

## Bilateral versus Global Accords

*In response to questions about the impact of Mexico's growing network of bilateral agreements on US-Mexican trade and about his views on global trade agreements in general, President Zedillo summarized Mexico's position as follows:*

I truly believe that what American business people will find in the Mexican agreement with Europe is just opportunities. They should look very carefully at this agreement because they will find tremendous opportunities to enhance their own competitiveness in European markets. I think it would be a good idea if at some time in the near future (perhaps at this US Chamber of Commerce) a very thorough review of that agreement is made with the purpose of finding those potential opportunities.

Speaking in general about the future in terms of trade policy, I think there are two roles that have to be considered—and they are not mutually exclusive. I think that, notwithstanding what happened inside and outside the WTO conference rooms in Seattle, we should try to recover as soon as possible the initiative to promote a new round of global trade negotiations.

I think bilateral agreements are right, but the first priority is to arrive as soon as possible at a true global order of free trade. Mexico will continue to be very supportive of that.

The other road, of course, has to do with this (EU) bilateral agreement, which we have pursued very actively. I think it is in the interest of Mexico to continue pursuing these agreements. Probably I have concluded what had to be done during my administration, but I hope this task is continued in the future.

While it is fatal to give advice, I do believe that open trade is good for anybody, for any country. In fact, free trade has on some occasions encouraged societies to adopt other values that are important to freedom. I think freedom to participate in international markets also does encourage political freedom.

