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FAREED ZAKARIA GPS

Mexican Crisis; India Terror Attacks

Aired December 7, 2008 - 13:00 ET

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FAREED ZAKARIA, HOST, GLOBAL PUBLIC SQUARE: This is GPS, the GLOBAL PUBLIC SQUARE. Welcome to all of you in the United States and around the world. I'm Fareed Zakaria. A few thoughts about what's been happening in South Asia. Many people have called the attacks in Mumbai India's 9/11. If so, it's worth watching how India is handling this crisis.

The main thrust of the debate in India has been to ask why they were not better prepared, why their police and military response was inadequate. What should be done to fix it?

Now, naturally, there has been much discussion of the clear links to Pakistan. But even in that atmosphere of anger and rage, the Indian government is not rushing to war. No one is talking about military action, says the Indian foreign minister, Pranab Mukherjee.

And even the hard-line opposition party, the BJP, has called only for coercive diplomacy that forces Pakistan to live up to its U.N. obligations to fight terrorism. And the efforts by the BJP to stoke up anti-Muslim feelings in India do not seem to be having much success. All in all, a mature response to a terrible act of barbarism.

Now, the question is, will it be rewarded for this? Will Pakistan really get its act together and finally stop shielding terrorists and allowing them to live and operate freely on its territory? Will the rest of the world start putting pressure on that country to end its flirtation with these terror groups?

Will it hold the Pakistani military accountable for its officers - whether they are technically retired or not - who train and equip these forces by the hundreds?

If not, if India's restraint does not yield results, then it's going to give New Delhi every reason to decide that the only workable option it has is military force. And that would take this crisis to a whole new level.

Now, on the show this week, an exclusive interview with the former head of Pakistan's elusive intelligence service, the man who is said to have created the Taliban, Hamid Gul.

I'll also be talking to several distinguished Pakistani analysts. And then, a conversation with the former president of Mexico, Ernesto Zedillo, who will explain how he got

his country out of its credit and financial crisis. Stay with us.

ZAKARIA: We've now heard a great deal about the elusive ISI - the infamous Pakistani Inter-Services Intelligence agency. There are some reports that there may be a connection between elements in the ISI and the Mumbai terrorists.

Today, I've had a rare chance to get an inside glimpse, an exclusive interview with General Hamid Gul, the former head of the ISI.

I should warn you. Some of his views are shocking. On 9/11 in particular, he says some things that I, for one, think are absolutely wrong and thoroughly discredited. But I thought it was important that you hear them, given the position he has held.

(BEGIN VIDEO)

ZAKARIA: General Gul, you know that the United States has given four names to the United Nations of ISI officers whom it would like to place on an international terrorist list. You are one of those four names.

What's your reaction to that.

GEN. HAMID GUL, FORMER PAKISTANI INTELLIGENCE CHIEF (via broadband): I think this is a frame-up, a total frame-up. I have - I have my own (ph) voice. And I raise. I have a position which I express freely, openly. I'm like an open book.

This is preposterous. This is wrong. This is fallacious. And if my government does not ...

ZAKARIA: What are the charges against you?

GUL: ... XX me, they ...

ZAKARIA: What are the charges against you?

GUL: Their charges are that I am helping the Taliban and al Qaeda. And what - this is so generalized. And particularly, there is the mention of Sarajo Din Nohani (ph), whom I have never seen in my life. I don't know who he is. I knew his father, Jalal ud-Din Nohani (ph), way back when I was D.G. ISI. But that's been a long time ago.

I have nothing to do - I have no means to help them. But, of course, my position is that Americans have aggressed in Afghanistan. And whoever is resisting, the resistance there is justifiable.

So, that is my position. I will maintain that position. If that becomes the basis of dubbing me as terrorist, then I would say, it's all right.

But other than that, to say that I'm practically involved in any kind of help - absolutely wrong. I am not that at all. ZAKARIA: General Gul, when you read about these attacks in Mumbai, and you see - when you read about the attacks in Mumbai, this is a three-stage, amphibious assault in which the boats were commandeered, the captain and crew then killed.

They maintained radio silence. They split up into pairs. They know their locations. They make a few false targets to draw the first responders there.

This seems like a military operation.

Isn't it likely that there was some special forces or intelligence assistance given to these attackers?

GUL: Indeed. I think that this was a very sophisticated operation. There is no doubt about it. It has rocked the - and I have all my sympathies for India - they rock this huge country for 72 hours. And they really don't know how to react and respond to this.

But when you look at the full spectrum of possibilities, who could have done it, then one knows that Samjhauta Express was a similar case, in which Pakistan ISI was accused. But it turned out that it was the militant Hindus themselves who had killed 68 passengers in that train, and that it was an inside job.

Now Colonel Srikant Purohit, who is a serving army officer, he has been caught in this particular case. And the whole thing has turned around.

So, obviously, there is an inside job.

ZAKARIA: If it turns out, as the one surviving terrorist says, that these people were trained in Pakistan in four separate locations, do you think it would be retired ISI people? Who would be training these groups?

GUL: Not necessarily. It is a question of motivation only. If somebody is motivated, then it is - because what kind of weapons did they use? That's very important. They used flashing (ph) calls (ph). They used the hand grenades. And this is - this doesn't require a great deal of training. And, of course, these weapons are also available in the open market.

If the evidence is there, then I am one of the people who would say, yes, India really has been done a great deal of wrong. We have said - and Pakistan government policy has been very clearly enunciated - that we will punish them. Bring the evidence, we'll take them to task. But so far, no bodies have been shown, no faces have been shown. And this man has not also been brought before the cameras.

I think the evidence has to be, because you cannot, on the basis of accusation alone, start taking actions which can unleash historical kind of changes. And this would be a watershed in the relationship between India and Pakistan, and we have to be very careful about it.

ZAKARIA: But are you confident that the ISI does not have links, formal or informal, with Lashkar-e-Taiba?

GUL: I have no linkages with them. But I do understand the character of an organization. It's a highly disciplined organization, unlike the other organizations. Their political appointees can be infiltrated.

In the ISI, it is only the uniformed personnel who come and serve for two to three years. And then they revert back to their parent services. So, they are bread-and-butter. Their career advancement, their promotion chances - they all lie with the three armed services, that is, navy, army and the air force.

So, there is one organization, intelligence organization, which would remain absolutely on the line. That would be the ISI.

Unless you say that, OK, the army is behind it, the Pakistan government's policy is this. ISI cannot do a maverick job like this. It is unbelievable.

ZAKARIA: The president of Pakistan, Mr. Zardari, the day after the attacks, said that he would send the head of the ISI to India to cooperate. The next day it was revealed that, effectively, the army chief of staff had overruled him.

Is that appropriate for the elected head of state to be overruled by the head of the army?

GUL: Well, I think it was a good thing that they withdrew their decision. And besides, sending the D.G. ISI is something totally - Indians should not have demanded this,

and Pakistan should not have accepted to send him, because it was only an accusation at that time.

And it was not a question of cooperation, it was a question of interrogating, summoning him. In fact, the word "summon" was used. And that was an affront to the national honor of Pakistan and that of the Pakistan armed forces.

ZAKARIA: Do you think we should be thinking of al Qaeda as a terrorist group? I know that there was a conference in January 2001, which you attended, at which you felt that bin Laden was better described as a religious warrior, and should not actually be thought of as a terrorist.

GUL: No. We said, unless the evidence is brought up against him, then he is not a terrorist. It's wrong. 9/11's full evidence has still not emerged. It is still shrouded in mystery.

A lot of people have a lot of misgivings about that. And it's not only me. I think a lot of people in America would be thinking the same way. There are scientists, there are scholars, who have written articles on it.

So, I think to dub a man as terrorist - because I know, I heard him twice say on radio, or something like that, and I think it was Osama - not only that, but Mullah Omar also said that he did not believe that Osama had carried out that act. So, that is still a mystery, and it needs to be resolved. Americans have still to set up a proper commission, an inquiry commission, into this event. I think that's very important. And I think President-designate Obama would do well to set up an inquiry commission into this.

ZAKARIA: What is your hunch as to who did - who perpetrated the 9/11 attacks?

GUL: Well, I have been on record, and I said it is the Zionists or (ph) the neocons. They have done it. It was an inside job.

And they wanted to go on the world conquerors. They were looking upon it as an opportunity window, when the Muslim world was lying prostrate. Russia was nowhere in sight. China was still not an economic giant that is has turned out to be.

And they thought that this was a good time to go and fill (ph) those strategic areas, which are still lying without any American presence. And, of course, to control the energy tap of the world.

Presently, it is the Middle East, and in future it is going to be Central Asia. So, there are many, many XX. And, of course ...

ZAKARIA: But you think ...

GUL: ... XX.

ZAKARIA: But you think who would be ...

GUL: That's what I also think, yes.

ZAKARIA: Who is at the heart of - who do you think was at the heart of plotting 9/11?

GUL: At the - it's very difficult, really. I wouldn't point my finger at it.

But I think it was planned in America. And at least one knows that it was done in Germany, as far as the reports go.

But I think the heart of planning was inside America, because the job was done there. But not a single person so far has been captured, caught, interrogated inside America, even though this entire episode took place there.

ZAKARIA: But you've said that the people behind it were the Zionists, neocon conspiracy. Do you mean by that American Jews? Do you mean Israel?

GUL: No Israel. I will not - because Jews are also divided into - not all Jews are bad. Of course, there are a lot of things common between Jews and Muslims.

In fact, they are the closest to us religion-wise, because some of their scriptures are respected by us. Their prophets are our prophets. They have the injunctions in Torah are very much similar to injunctions in the Holy Quran. So, there are things which are very common.

But there are those people who are very ambitious, who have a certain agenda of their own. And I think they have turned the world upside-down, because of those ambitions or their fears.

So, fear and ambitions are two things which have come together as far as Zionists are concerned. And they are trying to drive the policies of America. And unfortunately, the American people are suffering because of that.

(END VIDEO)

ZAKARIA: Let me reiterate what I said at the outset. Some of General Gul's views are simply false. There is a mountain of evidence about 9/11 that refutes his assertions.

But I did feel it was important to listen to his voice - a rare public opportunity to listen to somebody from the highest levels of the Pakistani military. He doesn't represent all of it, but it is, as I say, a rare chance to listen to some senior voice from within the ISI.

We'll be back.

(COMMERCIAL BREAK)

ZAKARIA: Now, more of my interview with former Pakistani intelligence chief, Hamid Gul.

(BEGIN VIDEO)

ZAKARIA: Do you have high hopes for President-elect Obama?

GUL: I have high hopes for people of America. I think they will soon realize that they have been taken for a ride by somebody else, that they are being used for somebody else's cause, somebody else's ambitions, and somebody else's fears.

And that America is a wonderful country ...

ZAKARIA: And who is that? Who is that?

And who is that?

GUL: Of course, Zionists. Zionists are doing this. Everyone knows that. And so much has been written about them. And they use various techniques to involve America.

And I know now, there was an article in the "Washington Post," I think, on December 2nd, two days ago, by a gentleman by the name of Robert Kagan. And he is now suggesting that Pakistan itself should be attacked, and that tribal areas should be occupied.

So, it immediately clicked to me that perhaps a legacy is going to be created for President Obama, that he cannot pull out. It would be such a mess created for him, that for the next four years of his term in office, he will remain involved in greater adventurism than there has been in the past. So, this is a conspiracy against America itself.

Then we talk of Afghanistan and tribal areas. The kind of fighting that is going on right now, it is a national resistance. To begin with, after 2001, when Taliban were thrown out of power, at that time it was Taliban movement alone. But now, it is a veritable national resistance, which the American forces and the NATO forces are facing

So, I think it would be best that Americans review their policy, and they consider a paradigm shift, which is necessary. When President Obama says that ...

ZAKARIA: What would that paradigm shift be?

GUL: Indeed, paradigm shift - he hasn't said about paradigm shift. But when he talks about change, it obviously means that the American administration has to focus more on internal affairs. There are the problems of Medicare. There are problems of social welfare. There are problems of economic meltdown - today there was a car crisis - and so on, and so forth.

So, how can they bring about a change in the lives of the American people without disengaging, or at least scaling down, external commitments? And one place where they must scale down, that is Afghanistan.

And for that, there is a need to negotiate with the opposition. People like Karzai will not serve the purpose in this case.

So, I think the American administration, if it's really looking for a change, then this is what it must do.

ZAKARIA: Basically you're saying they should talk to the Taliban, and perhaps even dislodge Hamid Karzai, the elected president of Afghanistan, and bring the Taliban back to power?

GUL: Not necessarily. I think the system can be found. And our (ph) nation has been very wise, because nobody's wiser than the victim. And they have been victims of aggression of one form or another and internecine fighting for the past 30, 32 years.

So, I think they're quite wise, if you allow them to sit down together and sort the matters out. But you have got to remove the puppets before you do that. And you can't talk to terrorists. That is a compulsion. Therefore, remove the label of terrorist from Taliban.

And, incidentally, Taliban have - XX have not been found to be involved in any act of terrorism anywhere in the world.

(END VIDEO)

ZAKARIA: We'll be back.

(COMMERCIAL BREAK)

ZAKARIA: And to make sense of all this mess, David Kilcullen is probably one of the smartest guys on the subject of counterinsurgency, an advisor to General Petraeus, and one of the authors of the so-called surge in Iraq.

Dave, your professional opinion, based on what we know about the attack is that it would have required a fair amount of planning and some intelligence support, or not?

DAVID KILCULLEN, AUTHOR, "THE ACCIDENTAL GUERRILLA": I think this event looks a lot more like a classical special forces or commando style raid than it does like any terrorist attack that we've seen before.

Al Qaeda has never mounted a maritime attack on a land-based target. They've mounted a number of attacks on sea targets, such as the USS Cole, on October 12, 2000. They've mounted a number of other attacks on, say, oil rigs in the Arabian Gulf, and so on.

But no al Qaeda-linked terrorist group, and certainly never Lashkar-e-Taiba, has mounted a maritime raid of this type or this complexity - hijacking a fishing vessel, infiltrating via the sea, via an inflatable boat, but then also launching diversionary attacks designed to pull the first responders out of the way of the subsequent follow-on groups that then struck the Oberoi, the Taj Mahal and the Nariman Center. And then, when we did see these groups taking and holding these buildings, they were applying some pretty sophisticated methodology.

I think also, if you look at the attackers themselves, we have nine bodies and one detained XX at this stage. And if you look at the equipment that they carried and the way that they operated, this was very much in the vein of a special forces raid, rather than a traditional terrorist attack.

The guys had backpacks with about 20 pounds of explosives each. They had some pretty sophisticated weaponry, cryptographic communications, satellites, cell phones, credit cards, false ID. They were clean-shaven and dressed in Western clothes.

You know, this was a clandestine operation or a covert operation style activity.

ZAKARIA: So, to your mind, it would have had to have some kind of intelligence training component, provided by special forces - Pakistani special forces.

KILCULLEN: Well, I don't think we know who would have provided it. But certainly, these boys had professional help. And I would even go further than normal intelligence service to say probably special forces assistance.

ZAKARIA: When you were in Afghanistan, and you would find that there was some connection between some of the groups fighting U.S. forces and the Pakistani military, and you would go to the military, or the Americans would go to the military, and say, you know, in some way destroy these groups, go after them, would the Pakistani military turn on its former militant groups - groups that it had created?

KILCULLEN: I think that Pakistan has done some very good work early in the period after 9/11 against senior al Qaeda members.

I think our success rate in getting Pakistani forces to disarm, arrest or in any other way hamper the activities of Taliban operatives has been between nothing and very slight.

ZAKARIA: And when you look at Lashkar-e-Taiba it seems it's even lower, and that there really hasn't been much of an effort. Lashkar-e-Taiba operates quite widely throughout Pakistan.

KILCULLEN: Well, that's right. And it, of course, has a charity arm. It has a propaganda wing. It operates a lot more in the vein of Hezbollah or some of the other more sophisticated, the Ikhwan, the Muslim Brotherhood-type organizations, rather than as a straight, kinetic, insurgency or terrorist group.

So, Lashkar-e-Taiba is a very sophisticated, region-wide organization that's been responsible for a number of attacks outside of Pakistan in the past. So, it's a pretty sophisticated organization, and one that I think survives in Pakistan, partly because there are individuals there who support its objectives or have a vested interest in

allowing it to operate, but also because of - it simply lacks governance, or poor control over parts of Pakistani territory.

So, I think the wrong way to go here is to blame Pakistan's civilian leadership and ask them to do more. The right way to go is to say, what can we do to help you to effectively govern your own territory, to get your own national security establishment under control, and to become more like a responsible, democratic member of the international community.

ZAKARIA: If you were advising the Indian government, and they wanted to respond militarily, what would you say?

KILCULLEN: Well, I think that it would be a very bad idea to respond militarily in any kind of unilateral way. I think that cooperation ...

ZAKARIA: The United States responded to an attack on its territory after 9/11 - a very similar circumstance. There was a terrorist organization housed in Afghanistan. And they said, either you turn these guys over to us, or we will destroy them.

KILCULLEN: Well, yes. But Afghanistan wasn't a nuclear-armed power right next to the United States. So, I think that everybody who is a responsible player in the South Asian region has an interest in avoiding military action between the two countries, and in seeing justice done to these terrorists, and in seeing a change to the relationship between terrorist and militant groups and the Pakistani national security state.

And I think that sort of outcome is much more likely to be achieved through processes of cooperation, law enforcement, dialogue, and so on, than through any kind of international or Indian unilateral military activity.

ZAKARIA: Do you think the Pakistani army - not the civilians, the Pakistani army - can be persuaded or pressured to reorient itself away from supporting these groups in any way, and, in fact, to turn on them and to clean up the territories that they govern?

KILCULLEN: Well, this is, to a certain extent, a matter for Pakistanis. But I think the response of the Pakistani government after this attack is illuminating.

I don't know what your previous guests mentioned about that, but obviously, President Asif Ali Zardari mentioned that he would send General Pasha, D.G. ISI, to India, to assist in the investigation, but then, within 24 hours was told "no" by the army. And so, I think that poses the question, you know, who's in charge in Pakistan?

And I think that what we need to be doing is assisting the Pakistani civilian, democratically elected political leaders in exerting their authority and gaining a measure of civilian control over the national security establishment.

That's very difficult to do from Washington or, indeed, from anywhere other than Islamabad. So, we need to be offering them assistance rather than necessarily leaning on them more heavily.

ZAKARIA: David Kilcullen, as always, a pleasure. Thank you.

KILCULLEN: Nice to see you.

(COMMERCIAL BREAK)

ZAKARIA: Ernesto Zedillo is uniquely positioned to talk to us about the current economic crisis. A distinguished economist, he was president of Mexico when that country went through its credit crisis, financial collapse and economic recession.

He's also the president who brought democracy to Mexico by ending the 70-year reign of the PRI, the political party that dominated Mexican politics.

Welcome.

ERNESTO ZEDILLO, FORMER PRESIDENT OF MEXICO: It's good to be here, Fareed.

ZAKARIA: So, when you watch what's going on now, does it remind you of the Mexican crisis that took place in the early 1990s?

ZEDILLO: Of course, this is a much bigger crisis. But there are some features that definitely remind me of the Mexican crisis. We were on the eve of seeing in Mexico a total collapse of our financial system. Unfortunately, I think this is what we have seen, particularly in the second half of September and the early days of October.

ZAKARIA: So, you - when that happened to you, you called up Larry Summers and Bob Rubin, and ...

ZEDILLO: Actually, I called President Clinton.

(LAUGHTER)

I didn't know Larry Summers at that time.

ZAKARIA: And you called President Clinton and you said, "You've got to help us. You've got to extend lines of credit to us."

And in effect, you asked for a version of the bailout that the financial industry is getting now.

ZEDILLO: Well, yes. More or less that's the story.

I mentioned to President Clinton, this is not the typical balance of payments problem. I think this is a very serious problem. I think we are seeing the first crisis of what is called an emerging market, Mexico. And this could become a systemic crisis, at least for Latin America. And I think we have to do something very dramatic to control the problem, because it could have terrible consequences on Mexico, and also on other countries.

President Clinton said, "Wow. I didn't know that things were getting that bad."

And I said, "Well, you know, I think it is."

And he said, "Let me talk to my people" - meaning Bob Rubin and Larry Summers. And two days later he called me back. And he said, "They say - Bob says that you may be right."

(LAUGHTER)

So, that was the story.

ZAKARIA: And the fear was exactly the same as we have here, which is that a collapse of the Mexican financial system would tighten credit markets throughout Latin America, and possibly beyond that.

ZEDILLO: That there will be a contagion. But fundamentally, my fear is that, if our financial system collapsed, then our real economy will collapse.

And this is something that is sometimes not very well explained to people, in this country or in any country.

Here I have heard these stories about Wall Street and Main Street. Quite respectfully, there is no difference at some point between Wall Street and Main Street, because if your payments system stops to function, then the real economic activity, even those activities that have nothing to do directly with the financial system, will come to a stop.

ZAKARIA: Right. If Main Street cannot get credit, and it can't function ...

ZEDILLO: Well, it's not only credit. Because if banks close, you cannot even use your cash balances. So, if the financial system fails, then everything else fails, at least for a while.

And that is dramatic, because then, immediately, you have massive unemployment, and you have things that we haven't seen in many decades. It's terrible.

And that was my fear in the Mexican crisis.

ZAKARIA: So, now, the good news of the story is, the package, the financial rescue package worked. What happened, and why did work?

ZEDILLO: Well, it worked because, number one, we adopted a serious, consistent program to stabilize our economy. It was very painful, because we had to reduce government expenditure, we had to allow interest rates to go very high, we had to tighten our belts, and also because we had the money to show the world that the Mexican economy was solvent. And in the process, of course, we had to rescue our banking system.

ZAKARIA: So, did you rescue the same way that Paulson is doing, injecting equity into banks?

ZEDILLO: We did everything. All of the above.

Unfortunately, there is no tested recipe to rescue a banking system when it is in crisis. So, we have to do - as it is being done right now in the world - we have to rely on many instruments, including the injection of capital into banks.

And this, of course, is very hard to explain to people. But I think it's the responsibility of political leaders to avoid, by all means, the collapse of the total economy. And I think that's what authorities in the United States, in Europe and other parts of the world have been trying over the last few months.

ZAKARIA: Ernesto, why is it not working? You've had huge equity injections into banks, and yet, credit is still very tight. Capital is very expensive, even for very good companies. So, at some fundamental level, it does seem as though, at least right now, the bailout hasn't worked.

ZEDILLO: Well, it didn't take one day to create this mess. It will not be in one day when the problem is fixed.

I think the authorities have to continue applying the instruments that they have been applying. Now, they need to see how the recession is contained, because the problem is that the financial system gets sick, and that affects the real economy. And when the real economy is affected, then the financial system tends to get even sicker. So ...

ZAKARIA: So, it can lead to a spiraling.

ZEDILLO: Exactly.

ZAKARIA: So far, the administration and President-elect Obama seem to be following a path of equity injections into banks. Clearly, there's going to be some kind of fiscal stimulus.

Should there also be something dramatic done on the underlying asset that is declining, which is to say housing prices? Because this whole problem, at some level, rests on the fact that housing prices - one-third of the American economy - are sinking and continue to sink, perhaps overshooting on the downside the way they overshoot on the upside.

Should that be fixed? And what would you do to fix it?

ZEDILLO: It is not possible to think that artificially the house prices that were achieved in a bubble should be kept ...

ZAKARIA: At those levels.

ZEDILLO: ... artificially high. So, the problem is, where do you draw the line?

And it's very controversial. I mean, what is the right price to give a sustainable equilibrium to the real estate market? Because you could hold the prices artificially at some point. But then, if it is still unreal, after a while you will have another crisis.

So, it's very tricky.

I think - I'm not so sure in which school I am. I am a bit skeptical of an intervention that would try to keep prices still too high.

ZAKARIA: We will be back with Ernesto Zedillo, the former president of Mexico.

(COMMERCIAL BREAK)

ZAKARIA: And we are back with Ernesto Zedillo, the former president of Mexico, who steered his own country out of its financial crisis and economic recession.

Ernesto, one of the things that is being debated in Congress right now is the auto bailout. Now, this is a classic case where you can make the argument that this will shorten and soften the recession, to provide some kind of bridge financing for auto companies.

But I know you are a committed free-marketeer. The government is, in effect, subsidizing failure at some level. What should it do?

ZEDILLO: Well, again, a very tough question. I don't really know what has happened with the auto industry in this country. My perception is that significant efforts have been made to improve the competitiveness of this industry.

But I know that, given the financial situation, now they are even in a worse crisis than they were a year or two ago.

So, I think people have to look really closely and try to distinguish whether they have got to this very bad situation because they were not doing what it takes to have a really competitive industry. Or they have done a lot, and maybe they need to be given some final support to fix structurally this industry.

ZAKARIA: Do you accept their argument, that if they were to file for bankruptcy, it would have a cascading effect through the economy?

ZEDILLO: In general, I am very skeptical of sectorial supports to industry. I am more in favor of instruments that do not discriminate among sectors or among firms.

ZAKARIA: So that the government isn't picking which sector ...

ZEDILLO: Yes. And in this case ...

ZAKARIA: ... should be favored ...

ZEDILLO: ... evidently, the government will be picking a winner - or rather, a loser, to make it a winner.

I would say that the conventional wisdom, at least in my profession, is that that is not a terribly good policy.

ZAKARIA: When countries like you went through economic crises, people from Washington came and told you, you've got to do three things. You've got to raise your interest rates. You've got to tighten your belt. You've got to cut government spending. And you've got to let bad businesses fail.

When we had the crisis ourselves, the people in Washington said, we've got to lower interest rates, we've got to prop up our banks, and we've got to spend large amounts of government money rather than cut back on government spending.

Do you regard this as a strange irony?

ZEDILLO: Well, no. First, when we started to confront the crisis, even before we talked to the IMF, even before we talked to the U.S. government, we put together a very tough program of fiscal and monetary adjustment - precisely because we didn't want the other chaps to tell us what to do.

And we knew what to do. I mean, once we had the full manifestation of the problem, we said, "We are not going to fool around with avoiding our own responsibility."

ZAKARIA: But is Washington avoiding its responsibility?

ZEDILLO: No, I don't think Washington is avoiding its responsibility. I think, after September - or after September 15 - the authorities of this country became very aware of how serious this situation was. And for people, it may look like an eternity.

But actually, if you look at all the decisions that have been taken since mid-September, I would say that it is very impressive, particularly in an electoral season, that so many things were done to avoid the total crash.

And, of course, this is very hard to explain to people. Because how do you tell people, listen, we have been doing well, because we have avoided an even worse situation?

And I think that's what has happened in the world.

ZAKARIA: And how - it was governments around the world. I mean, about 15 or 20 governments injected about \$3 trillion of cash into the financial system.

ZEDILLO: And these were governments, by the way, that early in September were believing that their economies were absent, or were not infected by the credit crunch crisis in the United States.

But once they saw the U.S. to react the way they reacted after September 17, then - and they started to feel their own pain - well, they moved very swiftly.

ZAKARIA: So, you give Paulson and Bernanke pretty good marks.

ZEDILLO: Well, I would say that, once they noticed that this was a totally different situation from the one they thought they were going through, before September 17, they really reacted quickly.

Whether this was really imposed brutally by their circumstances, or they were extremely clever to detect that we were on the brink of collapse, I don't know. But knowing that they have Paulson's great experience on markets and Bernanke being a scholar of the Great Depression, I think it helped a lot to have people like that, you know, in charge.

ZAKARIA: Ernesto Zedillo, thank you very much.

ZEDILLO: Thank you, Fareed. It's great to be here.

(COMMERCIAL BREAK)

ZAKARIA: And now, the question of the week.

Last week I asked, what do you think cities like Mumbai can do to better prepare themselves for terrorist attacks?

Several of you had good suggestions - small, well-trained, anti- terrorism forces dispersed throughout the city, or the omnipresent camera surveillance, the sort that London has.

But the vast majority of you had another answer: Nothing. You do not want terrorists to change open, free cities. You don't want them to change the way you live your life.

Now, to this week's question.

On next week's show we will have an exclusive interview with the former secretary of state, Colin Powell. My question is, would you like to see Colin Powell serve in government again, and in what capacity?

I have my own thoughts, but let me know what you think.

And for this week, I want to recommend a book. It's called "The Idea of Pakistan" by Stephen Cohen. Cohen is a South Asia scholar at Brookings Institution. You may recall he was a guest on the program last week.

Pakistan is really at the center of the problem of global terrorism today. And this book will help you understand that complicated country.

Remember, as always, you can visit our Web site, cnn.com/gps, for highlights from this program. You can e-mail me at fareedzakariagsps@cnn.com. And you can always find our weekly podcast on the Web site.

Thanks for watching. Have a great week.



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