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Global Challenges in the 21st Century: A View from Chile

Ricardo Lagos

Mr Lee Hsien Loong, Deputy Prime Minister of Singapore; Professor Wang Gungwu, Chairman of Institute of Southeast Asian Studies; Mr K. Kesavapany, Director of the Institute; Authorities, members of the diplomatic corps; members of the academic community; members of the business community; and students present here this afternoon.

Dear Friends

I am so sorry that I think that the friends in Singapore will keep referring to Miss Cecilia Bolocco than today's speaker. I am so sorry for that.

Let me tell you that it was not without hesitation that I accepted the task of sharing with you some views on Global Challenges in this 24th Singapore Lecture.

I say "some hesitation" because the list of my predecessors here is indeed impressive, and I am extremely honoured that you think I can follow in the steps of my predecessors.

I accepted this invitation primarily because of our interest in Singapore. We certainly share an ocean, but also much more than an ocean. I would say that we share a common value: a common approach to economic reform. Both countries, Chile and Singapore, look forward to integration into the world society and this integration is convenient for our own people. We also understand that in order

to integrate in the society we need to share some common values to build the kind of society we are going to be.

To be competitive today, you need to have some kind of internal cohesion. You need to share some common values in the way that you have been able to, to succeed in that particular area here in the last forty years in Singapore. Our two countries have an interesting track record in what we are trying to do. Both are active members of APEC. Both have actively supported the Forum for East Asia–Latin America Cooperation (FEALAC) and both are working through trade agreements to bring together our two countries plus New Zealand. We hope to be able to finish this agreement between the three countries early next year. Within ASEAN, Singapore is one of the most active business centres and, needless to say, the main port from which many of the Chilean products are distributed to the other member countries around the region.

At the same time, for both countries, multilateralism has become both a global and a national imperative. If we want to make progress, we need a world with very clear rules, where opportunities are open to all.

This is why we thought that it was important to thank you for this invitation.

We think the forces that shape our world today are forces that have to do with processes of globalization, and at the same time, with the processes of what happens with multilateral institutions that will have to shape, to some extent, the global process.

In other words, I do think that there is a growing tension between these two forces. While globalization is gathering strength, multilateralism — I wouldn't say that it is losing force, but, at least, multilateral institutions and the rules that are supposed to be applied by them are not growing as fast enough as the processes of globalization.

And this is very clear. Foreign trade today is equal to 60 per cent of the global gross national product. Of all the products of the world, 60 per cent is trade. Just one single indicator: international telephone traffic rose from 5,000 million minutes in the mid-eighties to 30,000 million minutes by the turn of the century — six times in just fifteen years.

Nevertheless, if globalization is blooming, there is also a bad part of the globalization process. Because illegal and criminal activities are rising, terrorist activities have become more global and less confined to geographic boundaries, and terrorist activities represent a tremendous menace to the process of globalization.

On the other hand, what about multilateral governance?

Despite the ever-increasing need for global governance, it is difficult to see how we are going to be able to keep the multilateral process increasing.

Global markets are growing very fast, without parallel in the last sixty years. But what kind of institutions are we going to have in order to make global markets provide global rules in the area of trade and finance? And to what extent are those rules going to be fair for everybody involved?

In other words, the multilateral system is responsible for designing and implementing international policies. Let's take an example: What has happened with the World Trade Organization (WTO)? What happened at Cancun? It is very clear that the failure at Cancun is going to make it much more difficult to have fair trade at the international level.

For many decades, multilateral rules and policies have shaped the system of global governance and this is something we have to be moving again. In addition to this kind of new world and governance,

we have new actors. In 1945 almost nobody talked about non-governmental organizations and today non-governmental actors seem capable of such powers and have to be taken into account in this kind of multilateral organization.

What can we do? In what way are we going to be able to have some global rules, some new concepts given this new world that is before our eyes? There is no doubt that isolation is not possible any more, and therefore economies such as Chile and Singapore will rely in the near future on the strength of global institutions. This is what we think is important to consider today.

If we consider what happened during the last two centuries after the Napoleonic wars in the Congress of Vienna, what do we have? A shape of a new Europe during those days that was shaping a new world. What happened after World War I in 1919? Well, the Paris Conference drew a new map for Europe, a new map for the Middle East, and to some extent, for Africa. Of course, you also have the League of Nations, which was the first attempt to have some kind of multilateral governance. Nevertheless, these initiatives had all lived for only a few years — probably because they failed to take into account the realities and the needs of the nations involved. Perhaps after World War II, with the birth of the United Nations, a new multilateral system was established. I think what happened in 1945 represented the power and the world of 1945. The United Nations and fifty-one countries in San Francisco drew a charter that represented what was the world in 1945. The decision to have a Security Council with five Permanent Members represented, I would say, what were the political realities of the world in 1945.

The next question should be what are the political realities in today's world — in the political sphere, in the economic sphere, in the cultural diversity that we see. It seems that since 1945, we have been asking the international system to say something in areas that in the past used to be the domain of individual countries.

Now, we ask the international system that some kind of public goods — if you allow me to use that expression — have to be dealt with: The environment, and do they care for the environment? The treaty of Rome and international justice? Human rights and the need to preserve human rights no matter where they are going to be violated? Now, the international community would like to say something. What about a concerted action against international epidemics? Or are we going to be able to have some concerted action in favour of cultural diversity? And how do we keep cultural diversity in this global world?

In other words, it is not only a question of how we are going to liberalize our trade, how we going to build a new international financial architecture according to the new realities of today's world, which is so different from the world of 1945.

If we want to have social cohesion at home, in order to avoid in our own country social tensions, then what about avoiding some kind of social cohesion at the international level? There are many areas where new institutions have emerged. There are many areas today that are quite different from 1945. It is not only with respect to capital transfers, but also on the political and social fronts.

What I would like to share with you is that to some extent if we are going to have a more global world, then the question is how are we going to be able to set up today the international institutions that will have to regulate this world. Especially for small countries like us, it is important to have some rules in place so that everybody can share a part of the profits of this process of globalization.

There is no question that globalization is here to stay. There is no question that globalization is essential for the welfare of mankind, but some rules are essential. We saw what had happened at Cancun very recently with regard to trade. I think at Cancun we missed an opportunity to achieve a more free and a more fair trading system. It's true that there are interests that are very difficult to

reconcile. But I also think that some advances now will have to take place.

Negotiation, in our view, should resume as soon as possible; otherwise more protectionist trade policies are going to appear any time.

Major players in the field have to make some compromises if we want to see some advance. Institutions that were established in 1945 were essential for that period of time. The International Monetary Fund (IMF) was established primarily to fix the rate of exchange between the different countries when the Gold Standard was over. But the World Bank was primarily a bank designed for the reconstruction of Europe, the reconstruction of those countries after the war.

Similarly, in today's world the problems of the IMF are quite different from the problems that it was supposed to tackle in 1945. The World Bank is becoming a world bank primarily devoted to the task of helping developing countries become developed. This is why we think the United Nations multilateral system must constitute the core of global governance and it should be given enough powers and instruments to be able to tackle those issues.

And there are more issues that we would like looked into: What about the environment? Where to discuss that? What about human rights? What about in the area of the International Criminal court? Those are the institutions that are shaping the new world and the problem is how can we move ahead sixty year after the major events in 1945? This, I guess, is the most critical issue that we have to face, and in order to advance I think it is going to be essential to also take care of some other areas.

What about labour standards as defined by the International Labor Organization? What about the so-called social protection for individuals and families? Who is going to establish the rules? Let me

tell you when we were negotiating with an important country, the question of our labour legislation in Chile emerged. They thought that our labour legislation was not “advanced” or “up-to-date”. So as not to be accused of some kind of social dumping, I said: “Look, where should I go to find out those rules and who defines the rules?”

What about the environment? Is our own legislation enough? Or in the near future are we going to have no tariffs but instead have new trade barriers? In other words, when we are talking about the process of globalization, it is essential to be able to address these new areas.

On this point, I think it is up to every country to face the realities. There are different kinds of countries, some more powerful than others, and differing in size. Nevertheless, it is essential to have a minimum of rules. In the case of Chile, it is our belief that integration into the world is key to a better life for our own citizens.

In other words, what happens abroad has a bearing on what happens in our own country. International politics is becoming more and more domestic politics, and it is necessary to understand this. We have taken an open view of global integration because Chile thinks that our development is here.

The reason we are now in Singapore is because we have so many things in common with what you have been able to accomplish. And in a new world, in a new multilateral system, according to the new global world, it is going to be extremely important to be able to share some of these ideas.

In the case of Chile, we have quite a number, as you mentioned, of free-trade agreements. We do that simply because our market is small and we think that our economy is performing in such a way that we are efficient and have some level of competitiveness and that in the global world we can hold our own.

It is true. To be in the global world means that you have to have your house in order. This means that the macroeconomic variables have to be in order — responsible fiscal policy and independent monetary policy. The so-called Washington Consensus is essential. But that's not enough.

In our case, in addition to the so-called Washington Consensus, we have been trying to implement a social network that is essential so that the benefits of growth will reach every citizen in Chile.

Free-trade agreements are not enough. Free-trade agreements are not going to replace the need to have some kind of international regulations.

What about anti-dumping legislations? What about the elimination of agricultural subsidies? There are many of these issues that are not going to be tackled by free-trade agreements and can only be resolved at a multilateral level in the World Trade Organization.

It is very important to keep in mind that in addition to these free-trade agreements, we will also need to have some kind of multilateral negotiations in those areas that are not going to be covered by free-trade agreements. In addition to free-trade agreements, I would say that what we can do at the regional level is also very important.

Foreign policy is rooted to a great extent in a country's geographical location. The foreign policy of Singapore is rooted in the realities of Southeast Asia. Our foreign policy is rooted in the realities of Latin America. This is because of geography. This is because of history.

But, in addition to belonging to a region like Latin America we want to see to what extent we would be able to have some kind of

integration. At the same time, there are some other regions in today's new world and this new region is the Pacific Ocean. And the Pacific Ocean that used to be an ocean that produced division now can be seen as a bridge between different worlds, and this is something new.

It is something new to discover that a country does not end in the ocean but the country just begins because of the ocean. And you can reach what you have at the other side of the ocean. In the case of Chile, when you have a sense of those almost 5,000 kilometres along our coast facing the Pacific, it is normal that once we see what's going on in the Pacific, then we have the feeling that for the first time we are witnessing a new kind of history. When the world was Europe, Chile was far away from the centre of the world. When the major emphasis was placed on the growth of the world trade taking place between North America and Europe, Chile was far away.

For the first time, global trade has been moving from the North Atlantic Ocean to the Pacific Ocean. And for the first time, international trade is growing faster in the Pacific rather than in the Atlantic Ocean.

What this means for us in Chile is that for the first time in our history we have the feeling that now we are closer to where the major historical action is taking place. And all of us know that more than 50 per cent of the world trade now is taking place in the Pacific Ocean.

Therefore, at the regional level, our belonging to Latin America is very important. But we also pay tremendous attention to what is going on in the Pacific Ocean, and therefore in the APEC economies. At the multilateral level what happens with the United Nations, what happens with the economic and social institutions established after World War II? The establishment of APEC as an institution of twenty-one economies today is extremely important in terms of a new kind of thinking on the way that you can go for the regional grouping of different countries. Because now geography is not the

land but the sea. More importantly, I think, is that APEC has been established on a voluntary basis in order to have free and open trade and at the same time to establish co-operation among different countries.

It is true that in the APEC economies each country is free to commit itself in different areas. But what I would like to present this afternoon here is what was decided ten years ago in the so-called Bogor Goals, by which free and open trade is going to be established either in 2010 or 2020 according to the decision of each economy.

It is important to note that the world has also changed since 1994 when the goals were established. The idea was that each country would voluntarily reduce tariffs in order to have free and open trade. And to some extent it was going to be a free ride for those countries that were going to benefit from that reduction of tariffs.

It's true that most of the countries have made major advances in this particular area. In our own case, in 1994 we used to have a flat tariff of 11 per cent and we have now reduced the tariff to 6 per cent. When we take into account the free-trade agreements that we have already agreed upon, our average tariff is less than 3 per cent. So we can say that we are approaching the Bogor Goals.

Nevertheless, when we are thinking about the mid-term evaluation of these goals, the question is: How are we going to evaluate? And the fact is that Chile is going to chair the next APEC meeting in November this year. I think this is a very good opportunity in a very open and careful way to evaluate what has happened.

Because in the last ten years, instead of lowering tariffs — which had been introduced at different stages in different countries — a large number of free-trade agreements had been established. Many people thought in 1994 that because the world trade agreements were moving too slowly, the decision was going to be to go through free-trade agreements, everywhere.

And we now have quite a number of free-trade agreements. How many countries among the APEC countries have free-trade agreements today, or are in the process of negotiating new free-trade agreements? In our own case, in addition to our trade agreement now with Singapore and New Zealand, there has been some talk about trade agreement with China, with India, with Indonesia, etc., etc.

And then the question is if there are so many trade agreements among the APEC member countries, would it be possible to think about some kind of a more general agreement based upon those trade agreements that already exist in order to advance some kind of free-trade area among those economies that would like to move along a little bit faster.

It is different from what was thought of at the beginning of APEC. At the beginning of APEC, we thought that if international trade was going to advance, the institutions must rapidly follow what had happened. In APEC, given the diversity of countries in size, in power, in trade, in cultural diversity, those twenty-one economies represent to some extent the diversity of this global village, and it is good if there is something to advance a little bit further in terms of negotiation at the global level. In other words, is it too difficult to think that some open discussions either through our ministers or our different institutions in APEC may also be useful at the world level?

The changes between 1994 and today, 30th April, are not only in terms of trade; there is also a new area that has emerged, like security and terrorism — in connection with trade. And therefore, more attention during the last twenty years had been devoted to these new areas. Originally, APEC was not designed to tackle issues related with political matters. But the realities in today's world are more urgent.

Today in Chile, a meeting of the Ministers for Education of the APEC economies is discussing the importance of learning English for the APEC economies. They talk about advances in the areas of

science and technology, as these are related to a global world. It is true that language has become an essential in this global village and, therefore, the question of how are we going to co-operate is becoming more and more important also in connection with trade and globalization.

In short, because of the global processes, it is necessary to have more up-to-date multilateral institutions. At the same time, at the regional level, what is going on in the European Union is one way of approaching the process of integration.

But what we are trying to accomplish among the APEC countries is different — it is open to all those countries that are committed to walk a little faster.

I think this is something we can discuss and work on. If global institutions and multilateral institutions are not prepared to move fast enough, some middle-level institutions like APEC may provide the answer to the lack of rules at the global level. This, I think, represents a tremendous challenge from the point of view of what we are trying to accomplish.

In other words, the changes that are taking place are moving so fast and it is so difficult for us to realize this is an epochal change. Probably at the end of the Middle Ages when nationalist states were emerging, there was a transfer of sovereignty from the feudal system to the kings at the national state. That transfer of power took quite a number of centuries to happen, but it took place. And finally you have a nationalist state, as we know.

In the process of globalization, more and more of the powers of sovereign states are being shared. Now it is shared in Europe with regard to monetary policy and the euro. I remember John Maynard Keynes said that the sovereignty of England was of course the Bank of England. What about the Bank of England when you have a European Bank? Now, that kind of approach is a new approach.

And what I would like to consider is to what extent some kind of international institutions will be necessary to establish rules so that the process of globalization is fair to everybody. But, as often seen in history, such a process will take many years. Nevertheless, it is important to realize what are the challenges that we have. It seems that for Singapore and Chile — both small and open economies — the near future means many other things in addition to investment, and these are science and technology. This morning, when we were discussing with the Prime Minister and the members of his Cabinet, this issue arose again and again.

Why? Because knowledge is becoming increasingly important. If this is the case, why don't we invest part of our knowledge into establishing the rules of this global village so that everybody can have a voice in trying to shape the new rules. I think this is no easy task.

But look at what you have been able to accomplish with your own society here in Singapore. Perhaps some forty years ago, it was very difficult to think about what you are all going to be in the year 2004 and to accomplish it. And to realize something at the global level and regional level, it is going to take even longer. But when you have a success story like the success story of Singapore, then you think it is possible to have some other success stories at the global level.

In order to be able to participate in that challenge, Chile and Singapore have a lot of things to share and to build.

Thank you very much for your attention.