

**NOTES FOR H.E. RICARDO LAGOS,
PRESIDENT OF CHILE,
2003 CANNING LECTURE**

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Higher Education.*

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Honored to & here,
Invited by the Council
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1. The Old Going and the New Coming World

On December the 26th, 1826, the then British Foreign Minister, George Canning, said before the House of Commons, ***I have called the New World into existence to redress the balance of the Old.***

As Canning viewed the world, almost two centuries ago, it seems to me than once again we are witnessing the birth of a new world.

- The integration of world society (globalisation) is eroding both traditional ways of living and public policies
- On many fronts, conventional wisdom will just not do, because it has become too narrow or too general to be of any use
- The world -and often our own countries included- is not split into two political and military blocks anymore

- More recently
 - the three larger countries, engines of the international economy, slowed down at the same time
 - the horror of September 11 struck, followed by other terrorist attacks and then came
 - the Iraq crisis in the UN Security Council, followed by the war in that country

Where are we now? I would put it this way; there is no single way of looking at the world, no single world order.

It seems to me that:

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- We can look forward to an improvement of life patterns, particularly in personal and social welfare, new opportunities in labour and professional developments.
- We can look forward to a world-wide strengthening of human rights and democracy.
- We can look forward at a richer diversity of cultural and personal beliefs.
- We can look forward to new blends of the political and technical aspects, to a new generation of public policies

But, we cannot forget that these are trying times for many people all over the world, particularly, for our region: Latin American and the Caribbean.

Once the nightmare of dictatorial governments was over, the region made a false start with the Washington Consensus, with a narrow view of what governance is about.

- Poverty and exclusion have not been defeated.
- We have democratically elected governments in practically all our countries. Market economies are prevailing. Market is a powerful tool for the creation of richness but market alone produces inequalities as we know it. We need also a society that decides about public policies through the free decisions of its citizens

2. Our goals and beliefs

In Chile we now have the political responsibilities of leading the country

And, in actual practice, we amended the Washington Consensus

- Our macroeconomic policy was orthodox, perhaps the most orthodox in the world. However, we made sure that as our economy grew, social conditions improved. Consequently, GNP doubled and the poverty index was halved in the period 1990 to 1997.

- And we continue in our efforts to strengthen and deepen democracy. We are still improving it step by step. Searching the way to achieve better democratic institutions.
- Truth and justice are the means we have chosen to heal the wounds of human rights violations in the past. Individual and collective healing can take place at last.

a. Social policies

Let us be clear on this point. We do need different development styles.

And why not? We have seen it constantly and in many places: market and democratic societies are both very diverse and grow differently.

Diversity is a mark for the future. Change is the mark of our civilization.

At the end of the nineties, it became clear to us that we needed another step to improve social policies; the rate of poverty decrease slowed less than expected. The poorer segment of the population was and is out of reach of most conventional policies.

Something had to be done.

The circumstances were not favourable: our economy was growing at a slower rate than before, amidst an international crisis and global political deterioration.

We established an unemployment insurance system, long overdue in an economy that was going global, such as ours.

We started the reform of the public and private health system and enacted "Chile Solidario", a special program to end extreme poverty, to improve the situation of almost one million Chileans.

- Health
- Higher education

b) More market and a better public sector

The sources of our GNP have changed radically. Today the private sector is the driving force behind more than 80% of it.

Employment in the public sector is among the lowest in the world, and so is our tax rate among comparable countries.

We have just approved a reform on the way the government is run. The vast majority of the most important public key positions will be appointed after following a strict and open selection process.

At the same time, we have increased the role of social and regulatory policies. We do not want to phase out the state, but rather an increasingly efficient one.

And that is because market economy does not solve every problem in our societies. And many of the matters that the market fail to solve must be addressed through public policies.

The enabling state is one which equips individuals and communities to meet their responsibilities (Peter Mandelson).

We do not want a society structured by one single organizing principle. We want our societies to be open, on a listening and dialogue mode, based on a variety of principles.

We want to have vibrant markets, but also individuals who have the capacity to realize opportunities. We want growth of the economy in order to allow for human growth, as far as the imagination can go.

c) Integration to the world

Our economy has continued to grow during these lean years and we are currently looking at higher growth rates because, in the meanwhile, we have consolidated a new basis for growth and development.

Allow me to explain this in some detail.

As you know, our society -and not only our economy- is small and geographically far away from most of the world.

We are a group of 15 million people living between the mountains and the sea, where the driest desert in the world is found and where the land ends in the Antarctica.

The willingness to have open trade channels and a dynamic exchange of ideas and culture was present from the very beginning of Chile as a Republic.

Today, exports plus imports amount to more than 60% of our output -among the highest rates in the world- whereas other countries in our region reach rates of 10% or 15%.

Present-day Chileans nurture a strategic interest in integrating our country to the world.

Our foreign relations are based on active international politics, dynamic open trade and increasing economic links and, finally, encouraging cultural exchanges.

We have taken major steps towards integration to the world economy.

During the last year we signed Free Trade Agreements (FTAs) with the United States, South Korea and the EFTA, and a very important Association Agreement, including free trade, with the European Union.

We already had FTAs with Canada and with all Latin American countries; we are also part of MERCOSUR as an associate member.

For the first time in our history, all Chilean exports -not only basic or primary goods- will go into the markets of developed economies with very low or zero tariffs.

Of course, the reverse is also true: Chile applies a very low or a flat tariff rate to all goods.

It is the opportunity our country has been looking for: to be able to diversify our exports, to go into new market niches and to move from one product to the other, whenever the opportunity arises.

Actually we have reached, as a single country, the most expanded free trade network in the world: 15 European countries, soon to be 25; 4 Mercosur countries; 5 Andean Pact countries; 5 Central American countries; 5 EFTA countries; USA, Canada, Mexico and South Korea.

This means that any Chilean or foreign producer of goods and services based in Chile can now export or import to or from the above mentioned countries with 0 tariffs and without other trade related obstacles.

After the entry into force of these recently reached international agreements, the average tariff in Chile will be 2.5%.

This is obviously a very interesting condition for foreign investors because they can do business not only in the Chilean market but also in this world wide market network that we have created in recent years.

We need to do this by strengthening, not weakening, our social cohesion.

Without it, no economy can be competitive. But more importantly, no society can be an equitable one without adequate social cohesion.

And that is because cohesion arises from the sense of sharing and of belonging.

- Of sharing the benefits of growth

- And of belonging to a community where individual development is a real possibility

Let me say, on this matter, that we welcome the opportunity to reinforce our labour policies with the strength of international negotiations. And the same is true for our environmental policy.

3. Chile and the World

On more general terms our international politics, in addition to the classical principles, is based on values such as the following:

- The promotion of human rights
- Respect for cultural diversity
- Compliance with international justice and
- The strengthening of multilateral organizations.

Nothing goes more against the grain of these principles than terrorism. Putting an end to terrorism should be an objective of the international community and of every single country.

But, again, the struggle against terrorism must be part of a common global agenda (Tony Blair), including social, economic, political and cultural development. The quest for global social justice is central to this integrated agenda.

We believe that the provision of global public goods, including security, free trade and social security for every individual should be effectively pursued by every country, in a manner consistent with its own endowment and capabilities.

a) Our region

Chile is defined by being part of the Latin America and the Caribbean region, and more specifically, to the Southern Cone.

We share geography, history and culture.

We are confident that the countries of our region will work much closer together. This gives us a say in world affairs.

Simultaneously, we have multilateral work to do within our own region. I am referring especially to the Organization of American States.

Our strong support of multilateral principles and organizations, as well as that of regional integration, should lead us to give the O.A.S. a new role, now that the days of the Cold War are over.

We support a flexible approach to regional security, based upon bilateral, sub-regional and regional agreements.

We of course believe that Latin America and the Caribbean must be kept as a nuclear free zone.

Also on the subject of security, Chile has put forward an initiative to make military expenditure statistics both transparent and comparable.

Otherwise we are condemned to increase regional military spending without a proportional increase in security. And this is like throwing money away with our eyes shut.

With the technical support of the UN Economic Commission for Latin America and the Caribbean (ECLAC), we have already completed this task with Argentina, and we hope that this kind of initiative will prosper in all of Latin America and the Caribbean.

If we could do it, in order to increase mutual confidence and security, why should others not follow? It can be done, and it must be done.

b) Open regionalism

Economic integration cannot go faster or further than the convergence of macroeconomic policies among national economies. This is a modest truth, but one that cannot be ignored except to our own disadvantage.

We must enhance and harmonise our social policies.

For this reason our primary focus is on our neighbours and on MERCOSUR, since we consider it to be much more than a commercial treaty and more than a customs union, as important as a unified external tariff is.

Let us be clear, MERCOSUR has higher and different qualifying tariffs than Chile and, given the MERCOSUR objective of lowering them, nobody in its right mind would ask us to push our tariffs higher, only to lower them again afterwards.

So there will be an undefined period during which the tariffs of MERCOSUR and those in the rest of Latin American and Caribbean countries –Chile included- could be at different levels, but this reality will not stop us from developing and working out further integration projects and institutions.

We are confident, because our countries share many views on external trade issues, especially in the light of negotiations in the Free Trade Area of the Americas and the World Trade Organization.

These two simultaneous processes will shape the economic environment of our region and that of the region in the world context.

But Chile supports a comprehensive FTAA, because the time is right to go much further than mere trade facilitation measures. Otherwise the momentum of trade liberalization would be eroded.

We need trade negotiations which make sense to all our countries.

For example, we support CARICOM demands for special treatment for smaller developing economies.

This is not empty rhetoric. We have built that concept into our market-access offers within the FTAA. Our first offer to the CARICOM amounted to a complete liberalization of 90% of industrial and agricultural goods on day one and liberalization of access to our market for services and investments.

We know that without special schedules (and some instruments) to overcome the obvious asymmetries between the nations of the Americas, the benefits of free trade cannot be reaped.

c) Security Council and the Iraq crisis

The Iraq crisis in the U.N. Security Council showed that there is a variety of international challenges we have to confront.

We did not foresee any special role for Chile in connection with the Iraq situation but, as a non permanent member of the Council, we had to perform, and we had to do it according to principles.

I was then in touch with many heads of state from Latin America and Europe and we put forward a reasonable proposal, given the information we had.

As you are aware, it was close, but it did not rally a working majority.

We believe, now more than ever, that global harmonisation is required on the political and social fronts, not only with regard to capital movements.

And that the United Nations is essential to world governance. As the Iraq crisis showed, a working Security Council is essential, particularly in the building of a post war Iraq.

d. Our relations with Europe

The European Union is the most spectacular process of democratic integration ever done, in spite of criticisms levelled at any normal human and political endeavour

Almost 50 years ago, leaving aside past confrontations and wars, 6 countries signed the Treaty of Rome. Later on, there were 9 countries, then 12 and then 15. Today you have decided, and foreseen, that the United Europe will be a world made of 25 countries in 2004.

This integration was – and is possible - because you decided to share your strengths and weakness, with the wealthiest countries contributing to the development of the others on the basis of a successful program of social cohesion and regional improvement. To this extent, nobody can deny that the European Union made, and it is making, a decisive contribution towards

an integrated Europe and giving, in this way, a capital support for an integrated globalisation.

We are convinced that a new relevant step, among others, to this integrated globalisation would be a strategically interregional agreement between the European Union and Latin America.

Some steps have already been taken. The Association Agreements between Mexico and the European Union, and the European Union and Chile belong to this reality. We have laid the first stone in the building of the bridge that should unite both continents. But I am also convinced that, because of the different realities, it will be very difficult for other Latin American countries to advance in the same way as Chile and Mexico did with Europe. We need a new pattern and a new style for the coming negotiations.

We believe that it would not be enough to negotiate just a free trade agreement because of the asymmetric situation of some Latin American countries vis-à-vis the European Union. This would lead to an agreement that will not boost the economic relations in a decisive way.

What we need to do is to introduce more principles, values and goals like the ones that made successful the European integration inside their boundaries.

Speaking clearly and precisely we need, on the one side, more social and economic discipline in Latin America. We also need serious commitments from the Latin American countries with regard to the agreements that will be negotiated with the European Union.

On the other side, we need some decisions from Europe that would open the way to fulfil the Latin American commitments.

Just a few examples:

- It is necessary to continue the suppression of subsidies, especially in agriculture, to get a free and fair trade between both sides.
- It is also unavoidable to offer some ideas and programmes about social cohesion and regional development in order to encourage the economic and social dynamics in the region, as well as enhance the consumer's capacity of broad sectors of the Latin American societies.

Such a framework will certainly help us to organise a short, mid and long-term agenda that will conclude with a new and closer institutional relationship between Latin America and Europe.

In my opinion, this strategic agreement has solid ground as both continents share some basic values as no other group of countries in the world.

Freedom, democracy, human rights, the rule of the law, free and fair trade, culture, have exactly the same meaning on both sides of the Atlantic. We think that in this new emerging world with a non stabilised new international order, with risks and threats coming from absolutely unexpected corners, it is wise and pre-emptive to develop structural and solid ties with those that share these values. These were key reasons for the intense interest of Chile to pursue the Association Agreement with the European Union.

We, Latin Americans and Europeans, share the goal formulated by the unforgettable French intellectual Albert Camus, who at the end of the Second World War wrote “ Now, our aim is to obtain a world free for everyone and fair for everybody”. “Un mundo libre para cada uno y justo para todos”.

e.- Chile and the United Kingdom

Chile and the United Kingdom now have a new framework and a powerful tool to strengthen their mutual relations: the Association Agreement between Chile and the European Union and its Member States.

We have also –at least for us- a remarkable common heritage. In the years of our independence names as O´Higgins, Cochrane, Mackenna, O´Brien, Thomas, Sutcliffe were key references in emancipation struggle. Along the almost two centuries of our republican life, Great Britain and many britons have played a relevant role in politics, business, education, foreign relations, defence, etc, etc.

Today new British energies contribute to our development in different areas such as mining, defence, water supplies, banking, trade. We hope that with our new efforts to improve our relations the bilateral links between our

countries will grow, reinforce and diversify the co-operation and dynamism of our ties.

Last Saturday in London, we signed an agreement to avoid double taxation that should lead to more active investments and exchanges, particularly among the medium size entrepreneurs. Today, this morning, two Chilean ministers and some relevant representatives of our entrepreneurs met 100 British business men to take steps ahead for investing in Chile, while participating in our new concessions program or using our country as a springboard for business in the region. I will attend this evening a working dinner with the Lord Mayor where business people of both countries will continue to talk about economic matters.

Finally I have met Prime Minister Blair and we have agreed to enhance our political bilateral relations and also the strengthening of our common efforts to boost the relations with Europe, Latin America and the Caribbean.

Bernardo O'Higgins, the hero of our struggle for Independence, who was the son of an Irishman and who studied in England, put it thus: ***By maintaining good relations with Great Britain we shall establish our success on basic principles.***

This is also my opinion today.

Thank you very much

Canning House