

Institute of the Americas

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Thank you very much, Ambassador Peters, for your words and for the good work.

Dear friends, I would first like to thank the Institute of the Americas for this award. I think that I would like to accept it on behalf of my country. There, we have walked a long road, in order to live, now, in a democratic society with peace and freedom. I am also deeply honored to receive the keys to the city. Luisa and I would like to be able to use the keys when I return to San Diego. And when we discovered that you're in the middle of a terrible winter here, I can't imagine what it would be like in the summer.

Just a few years ago, ports in Chile and the United States began to unload duty-free products traded between our two countries. It was here in California when, three years ago, we decided to re-establish talks with then-President Clinton, and we later followed up with President Bush. Now, this agreement is a reality, and I'm sure it will result in gains for consumers and producers in both countries. We know we're a small country, in the southern cone of America; what some people have asked us is, why have we made this agreement? And they've also asked us a more difficult question: why has the United States decided on an agreement with such a small country? I think that the reasoning is rather simple, from our point of view: we have decided to open up our economy, and to compete on the world stage. On the other hand, the US is committed to free trade, and it was probably easier to finally have an agreement like this one because, among other reasons, Chile has tried for extremely long. Nevertheless, and more importantly, I think that it was possible to conclude this agreement because we are a reliable country, a democratic society, and a peaceful country. In today's world, it is very difficult to act on the world stage, unless you have democratic institutions and a well-organized society behind you. We went through a transition from an authoritarian to a democratic regime, and now democracy is well-established.

This is how we've been able to reduce poverty, through growth. For the first time, I think, in our history, there is no major disagreement among different political and social forces. President Bush was extremely surprised when I told him that in our delegation, in addition to the official delegation and the business community, some

trade leaders were coming to push for the free trade agreement. The majority of our labor unions think that this kind of agreement is good for Chile. What I'm saying is that there is a tremendous consensus in our society about the kind of development that we have.

The fact that we have this agreement with the United States, or a similar one with the European Union, and the one that we think will be approved next month by the Korean Congress, means that we are a country that has decided that development will happen based on our capacity to compete abroad. And now, of course, it is easy to do that, because we put our economy in order. This means, first off, that we have responsible fiscal policies, and at the beginning of my term in office, we made an extremely important decision, to maintain a 1% surplus in our fiscal balance sheet every year. We decided to have this structural surplus based on our estimations of the prices of our major products. Chile has thus been the only Latin American country to maintain counter-cyclical fiscal policies. When the price of copper was going down, we were in a position to spend more, because we were thinking more about the price of copper in the long-run. And now that the price of copper is going back up, our fiscal expenditure is not going to increase. This is important, because when the price was going down because of international conditions, we were able to maintain fiscal spending. The fact that we have an autonomous Central Bank, and an autonomous monetary policy, has been extremely important as well. This makes it possible for the Central Bank to play the role it needs to play; just yesterday, they raised the interest rates above 2%. Our inflation is currently at 1.1%, over the past year.

Our exports are increasing, of course, and the fact that our growth depends on our exports means that we are dependent on the world economy. However, this also means that because our exports have been growing, we will have a much stronger economy. This is the reason we're here; we're trying to establish Chile as a launching pad to other Latin American countries. The fact that we have a relatively good level of education, more than 11 years per student; and the fact that we have a relatively good telecommunications infrastructure means that quite a number of back offices are being located in Chile rather than in other Latin American countries. From the point of view of Latin America, Santiago is now competing with Miami for the establishment of back offices. At the same time, Chile has been used by European firms as a starting point for expansion in Latin America. On other words, this decision to open the country and participate in trade discussions is our strategy to increase our growth. True, this

growth has also enabled us to reduce the levels of poverty and increase state efficiency, as I mentioned this morning at the University.

The fact that we've used automatic stabilizers in the area of our fiscal spending, that we're introducing special measures in corruption -something that few people in Latin America mention, as we all know- I think it is essential that Latin America countries fight corruption and we have taken very strong measures in this direction. We have now decided that applications for most executive positions will have to be open to the public. Therefore, the President can no longer make appointments in the higher ranks of public administration. We have also decided to make the relationship between money and politics very clear: we've established ceilings for how much we can spend, and how much taxpayers have to pay to finance political campaigns.

In other words, we're trying to be transparent in these areas, because we understand that this is the only way we can be part of the international community. In today's world, you compete not only with the quality of your product, of your labor, or with the entrepreneurship of your labor. You compete with everything: the kind of government you have, your rule of law, your environmental regulations; you compete every day when you look at your international credit rating in the newspaper. This is the new world where all of us must compete. Therefore, what the leaders of a particular country have to do is understand that this is what makes the difference. This is why we're rather proud of what we've been able to accomplish over the last 14 years. This is why we're extremely happy that yesterday, the Heritage Foundation issued a new report, the 2003 Index of Economic Freedom, where they and the Wall Street Journal rank Chile as number 13 out of 130 countries. The US is number 10, and we're number 13, so we're getting closer. We are measured in many different ways.

In E-Governments, for example, Chile is ranked 5th, according to Brown University. Ahead of us are Taiwan, South Korea, Canada and the US. E-Government is a tremendous tool to change the landscape of a country. Because we introduced E-Government initiatives, most tax payments in

Chile--70%--are now made by internet every year. When the happy time of the year comes around and you have to file your statement, you get on the internet, and the Internal Revenue Service will give you a draft of what they think you should pay. If you agree with this statement, all you have to do is click. It's a different way of thinking. The fact that 70% pay their taxes by internet is very important: most of our

small- and medium-sized businesses have to learn how to use the internet, just to pay their taxes. Because of E-Government, there are very few things in the Government that you cannot do on the internet. This year, all Government procurement--pencils, bleach, everything--is done through the internet. And more importantly, you can follow the progress of that contract on the internet as well, to make sure that what is in the contract gets implemented.

I mention this because I think it's the only way to compete in today's world. In Latin America, we are trying to do things right. I know that normally--as Ambassador Peters mentioned--there are different points of view on this; but it's my impression that now, people have learned the importance of responsible management of major macroeconomic variables. This is reflected in most Latin American countries today. If the international community is to trust Latin America, if we are to have a Free Trade Agreement of the Americas, a seal of quality assurance is going to be imposed on everyone. This is why we welcome a Free Trade Agreement with the United States. The US is becoming a major trading partner, and we think that this will both increase our exports there and also encourage the creation of high-quality jobs in Chile.

One example of this is that, about a month ago, I went to the city of Concepción, about 500 km south of Santiago. There was a new investment by a US firm there, to produce textiles. They bought an old Chilean textile mill, and decided to produce linen and export it to the US. Even before the agreement was signed, they decided that it was better to produce cloth in Chile, rather than here in the US, because of labor costs. Now, they are sending sheets from Chile to the US. The chairman of the company told me that they were producing sheets for a very small section of the economy, because they cost \$2000 to \$5000 each. We started walking around the factory, and I was looking at their materials, brought from the US and finished in Chile. I saw this linen, and I asked, "this is from the south of Chile, right?" He said no; the raw material had come from Europe, and they were importing it from France and Belgium, because the subsidies those countries received there made it very cheap. Then they sent the finished product back to Europe in the form of expensive sheets. We used to export raw materials, and they would send the finished sheets back to us, but now it's the other way around. They send us the raw materials and we send the finished product back. Why do I tell this story? Because in this world, I wonder what is better for the country in the long run: to subsidize the raw materials and receive the sheets already finished, or the other way around? I prefer to be producing sheets in

Chile and sending them to Europe. It's a question of what this kind of treaty represents. For small countries like Chile, they represent a change in the tariff structure. Normally, more developed countries have low tariffs for raw materials and higher ones for value-added products. Therefore, an agreement like this is a tremendous challenge: how are we going to increase value added to the raw materials that we have? I think this is an extremely important issue. It also represents an improvement in the standards of living for our people. Of course, we are fully aware of the differences in the size of our economies.

It is precisely for this reason that we think we have to find areas where our exports can be successful. Here in California, you know what it's like to have a huge economy, which is just part of a larger country. About 13% of our exports to the US come straight here. Meanwhile, most of Chile's imports are from California, together with Florida and Texas. In other words, this is why I think it's so important to establish this new chapter of the Chilean-American Chamber of Commerce, here in California.

We have been talking about the economy. If we have a good, competitive economy, democracy and respect for human rights have a particular meaning. In addition to that, I sincerely think that if we have a workable economy, we can have a peaceful society, with social cohesion. This is probably why Chile is in the position that it is in today: we don't just have what it takes to compete on the world stage. We have also been able to take steps to provide opportunities elsewhere.

Here in the US, you have been a land of opportunity for so many. Here, you've received people who have traveled across the Atlantic and the Pacific Oceans, because it is a land of freedom and democracy. You know what it means to live in a free country. But you also know that in order to live in a free country, you have to grow with equity, giving everyone a chance. You've been able to produce a society that moves in that direction.

This is what we're trying to accomplish, in our own way. Here, you've been able to receive the influences of so many cultures, so many religions, so many visions. You have learned that, probably, the major wealth of the US is its diversity. You use that diversity to increase your own culture. You've been able to teach the world that it is possible to have diversity, and at the same time, to accept ways of thinking that are different from your own.

In this world, there are so many people think they have a monopoly on the truth, and commit atrocities based on that truth. Everyone has to accept that their own truth ends where the other person's truth begins. This country has been able to surmount many difficult things. When I first came to the US, to study at graduate school, and I arrived at the airport, there were four bathrooms, for white men, colored men, white women and colored women. You have been able to solve these issues, in a way that very few countries have been able to do. This is probably your major asset: the fact that you accept different views, different cultures. To some extent, this is what we're trying to do in Chile, and it's what we have to learn in Latin America.

This is why I think that a Free Trade Agreement is so important for growth. But in addition, some of our cultural points of view are intertwined, which is why we're so happy to receive this award, which represents the peaceful and democratic values of the US. You have learned that to have democracy and peace, you need to have an extremely open society that accepts diversity, but at the same time, makes a very strong commitment to those ethical values that allow us to have a decent standard of living. This is what you have in California--the land of the new frontier--and in San Diego, where you are so close to another frontier.

Let me thank you for this award, and let me tell you that I remember this stay in San Diego as a time when we talked about how it was possible, in a large country, to have both diversity and one common purpose: to lead in democracy and peace.

Thank you very much.