

**Council of the Americas/ The Americas Society**

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Thank you very much for your introduction. It's nice to see all of you this morning, and I would like to thank the Americas Society and the Council of the Americas for this opportunity to talk to you about several issues.

I would like to begin by speaking a bit about the region's experience with different trade agreements, and talk about the Chilean economy. I think that there is still much to do in America with Latin America regarding trade, particularly the Free Trade Area of the Americas. In Latin America, most countries have learned the lessons of the 90s, and today most have tried hard to have fiscal policies and good macroeconomic policies, while at the same time opening up their economies to the world. Chile is not the only one; other economies are striving in the same direction.

Chile does have an extremely open economy now, with a flat 9% duty on all products coming in. Not many countries can say that. Our commitment is to drop the duty by 1% every year, so that by 2003, our tariffs will be at 6%. We have also achieved trade agreements with most Latin American countries. We have free trade agreements with Canada, Mexico, Brazil and most other Latin American countries. We are working on one with Europe, and as members of APEC, we are working towards agreements with some Southeast Asian countries. Even countries like Korea and Japan, which normally resist entering into free trade agreements like these, have now indicated that they would like to talk to Chile about free trade agreements. We are also, as you know, working towards an agreement with the United States. There is currently a political contest underway here, and I understand that we have to wait for the results of the Presidential elections, but there is no question that the US is in favor of free trade agreements with different countries.

I would like to believe that a Free Trade Agreement of the Americas could be a possibility in the near future. I think that the negotiations currently underway for a Free Trade Agreement of the Americas are working. The idea is for there to be a FTAA by 2005. The level of consensus reached over the last 18 months makes it possible to look towards a more precise deadline. This kind of agreement in the

Americas should be completed by 2004, with Congressional approval the same year, so that it can be implemented by January 2005. I think that this is possible, and I would like countries to make proposals related to it by the 3<sup>rd</sup> Summit of the Americas in Quebec next year. This is the best convergence of different economic policies in the different countries of the region. I hope that the next president of this country—whether it be Mr. Bush or Mr. Gore—decides to tackle a free trade agreement in the Americas. This is the best solution, not only in terms of trade, but also in terms of democratization efforts within the region, improving standards of living in our countries, and more importantly, to have a better partnership in this particular area of the world.

In the case of Chile, we would like to push for this. The opening of our economy means that about 50% of our GDP depends on what happens abroad. This is what makes Chile distinct from other countries. In Brazil, for example, President Cardoso told me that 11% of their GDP depends on what is going on abroad. This is why we need such an agreement, and at the same time, we need to stay on top of what is going on in the world's economy. What happens in the global economy is what is going to happen in our economy. This is why we need a responsible fiscal policy. We have decided to introduce a structural surplus into our budget. Next year, for the first time, we are going to present a budget with a 1% structural surplus. We will base it upon the median of our income range, so, for instance, if copper prices are rising, there will be no difference in what we will be spending on the budget. I know that this is a very strict system, but it's the only way for a country like Chile, that is so open to the world's markets, to sustain growth over the years.

Nevertheless, we have had success in terms of growth during the last decade. As you know, we have doubled our GDP over the past ten years. We were able to reduce poverty in Chile while keeping a budget surplus every year, with the only exception being last year. Next year, however, we will recover our rate of growth, affected by the Asian crisis during 1998 and 1999. This means that this year we can have a growth rate of around 5.8-6%, and next year, a rate a bit above 6%.

Aside from these good figures, we have another agenda: to achieve social equilibrium in our society. Along with good macroeconomic indicators, we also want good social indicators, in housing, healthcare and education. Despite the tremendous growth of the past decade, we still have extremely uneven income distribution. If the country is to compete on the world stage, we need some kind of social cohesiveness. We need the sense that everyone can participate in the fruits

of Chile's growth. This is what we have been emphasizing in the past six months: making sure that everyone pays taxes and everyone benefits from them. So we sent a bill to Congress, not to increase taxes, but to make sure that people pay them. We had some problems to tackle related to tax evasion.

We also have other issues to tackle. We need flexible labor legislation, but it needs to be accompanied by unemployment insurance of some sort, to make sure that those who are unemployed receive income for six months; this is a scheme that we are proposing to Congress. I believe that things like this are essential if a country is to have growth with equity. It's difficult for a country when growth only takes place in some regions or social sectors, but not everywhere. My firm conviction is that we can have growth and equity at the same time, if we are responsible as we face our major problems. This is why, very recently, because our jobless rate rose above 10%, we and our autonomous Central Bank decided to combine a small drop in interest rates with a small fiscal stimulus for the economy. But we have used our fiscal spending very responsibly.

I believe, however, that prospects are extremely good for the Chilean economy. I would like to speak with greater detail about what is going on in the region, and to talk about the prospects for the different economies. Most of foreign investment these days is going to the major countries: Mexico and Brazil. I can understand that, but smaller economies can also provide good business opportunities, particularly Chile. I would like to receive investment down there that is related to the new economy. My government is pushing extremely hard in this area. I understand there is a discussion going on right now about the success of the new economy, which has brought such success and growth for the US economy in recent years, and how it will wind down—with either a soft or a hard landing. I'm sure everyone in this room is hoping for a soft landing, and we are hoping for the same thing in Chile. But additionally, I think it would be very important for investment in this sector to take place in Chile.

Finally, I would say that in Chile, we are choosing to continue the economic policies of the 1990s into the present decade. We believe that if we can keep up our current rate of growth, we can achieve a per capita income in ten years similar to that of lesser-developed countries in Europe, such as Spain and Portugal in the late 70s and early 80s. We will be on the brink of development, so we can fulfill our dreams via trade with the different countries of the Americas.

From our point of view, Congressional authorization to begin fast-track negotiations with Chile is very important for us. The possibility of negotiating without fast-track has been presented to us, and I may consider that as well, as long as there is only one negotiation and Congress can accept the agreement we have made with the US government. This is the only fair way to have such a negotiation. I hope that the fast-track legislation for Chile can become a reality after the election, so that we can negotiate with the United States. I think that we can then have an even better partnership with the business community here than the one we already have. I am quite sure that we will be able to maintain our growth rate, and have better prospects for the economy.

The case of Chile is not the only one in the region, but I think that Chile and other countries in the region—particularly those of MERCOSUR—can work together. Before I end this presentation, I would like to express to you that our decision to negotiate with MERCOSUR has been a political one. We live in a region where we must formulate our own foreign policy. The tariffs of MERCOSUR are much higher than those of Chile. This is why we have agreed with them that we can integrate into MERCOSUR while preserving our own level of trade, our economic policy and autonomy, with different tariffs for MERCOSUR and Chile. If MERCOSUR has one level of tariff, it's not fair for Chile to increase its own tariffs to match it. In the long run, the tariffs of MERCOSUR and Chile will be similar, but right now that is not the case. We can have some kind of political understanding with Brazil and Argentina and other MERCOSUR countries, and we do have free trade agreements with them, but at the same time, we must preserve our autonomy in the area of trade, because of our differences with them. We have been able to lower our tariffs so much in Chile, and we would like to keep it that way, because we have worked very hard to get to that point.

In short, I think that the prospects for the Chilean economy are good. We are on the right track, we will have more growth and investment, and this is why I have spent time with you this morning, and why I was at the United Nations yesterday.

Thank you.