CAPITULOS

Options in Light of the Crisis

SELA
Sistema Económico Latinoamericano
Latin American Economic System
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Système Economique Latinoamèricain

57
SEPTEMBER
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The Latin American Economic System is a regional, consultation, coordination and cooperation organization created by its 28 Member States to promote economic and social issues.

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PRESENTATION

The financial crises that have shaken the world in recent years are not occasional and transitory developments but rather profound phenomena that have affected the foundations of our countries´ economies and the international financial system.

The economic, trade, financial and political reforms adopted since the 1980´s in order to obtain greater stability have not succeeded, in Latin America and the Caribbean, in dodging financial crises or reducing our countries´vulnerability vis-à-vis the effects of crises erupting in other parts of the world.

Presently, our region will need to face the aftermath of such crises and devise formulas to prevent and control the impact of future ones. Within this context, and in compliance with a mandate from its member states, last October SELA´s Permanent Secretariat organized within the framework of the XXV Ordinary Session of the Latin American Council, the panel "Latin American and the Caribbean options in light of International Financial Crisis". At the panel, a number of distinguished experts from Latin America, the Caribbean, Europe and Asia presented their analysis of the situation and suggestions for our region's future course of action.

This issue of CAPITULOS includes the presentations made at the panel as a contribution to the debate on the paths our region must follow in order to obtain sustained economic growth and social development in this era of globalization.

In another section of this issue we publish the speech given by Venezuela's Foreign Minister, Dr. José Vicente Rangel upon inaugurating the XXV Ordinary Session of SELA´s Latin American Council. In it, Dr. Rangel emphasizes that SELA is a "natural and privileged" scenario for the discussion of issues of fundamental interest to our region.

We also include the farewell speech by Ambassador Carlos Moneta, who concluded his four years term as SELA´s Permanent Secretary, and the inaugural speech of Ambassador Otto Boye Soto, who was elected by acclamation Permanent Secretary for the period 1999-2003.

Other articles analyze the MERCOSUR-European Union negotiations for an inter-regional agreement; the close relationship that exists between our region's different trade integration associations and the macroeconomic performance of their member states; and the evolution of financial mechanisms for micro, small and medium sized enterprises which has allowed them to become important generators of employment and wealth.

From Managing the Crisis to Managing the Boom
According to the author, the main challenge our countries face in dealing with their vulnerability vis-à-vis the financial crises that have shaken the world in recent years is to develop appropriate instruments that may allow them to manage periods of economic boom. In most cases, the crises are the result of badly managed booms since national authorities tend to have more room for maneuver during such times than during periods of economic crisis. In the author's opinion, the same can be said of international institution. Thus, policy makers must shift their attention from managing crises to managing economic booms.

Del manejo de la crisis al manejo de la bonanza
El reto fundamental para el manejo de la vulnerabilidad de nuestros países, ante las crisis financieras que han sacudido al mundo en los últimos años, está, de acuerdo a la opinión de este expositor, en diseñar instrumentos apropiados para administrar las bonanzas. Las crisis, en la mayoría de los casos, han sido el resultado inevitable de bonanzas mal manejadas –postulado que también aplica el autor a las instituciones internacionales– ya que los grados de libertad de las autoridades nacionales son mayores en las bonanzas que en las crisis. De allí la importancia de cambiar el centro de atención de las autoridades, del manejo de las crisis hacia el manejo de las bonanzas.

De la gestion de la crise à la gestion de la prospérité
De l'avis de l'auteur, pour remédier à la vulnérabilité de nos pays face aux crises financières qui ont secoué le monde ces dernières années le défi est de concevoir des instruments appropriés de gestion de la prospérité. Dans la plupart des cas, les crises ont été l'aboutissement d'une prospérité mal gérée, postulat que l'auteur étend aux institutions internationales; les autorités nationales bénéficient en effet d'une marge de liberté plus ample en période de prospérité qu'en période de crise. Elles devraient donc s'attacher à gérer la prospérité plutôt que les crises.

Do manejo da crise ao manejo da prosperidade
O desafio fundamental da crise para o manejo da vulnerabilidade dos nossos países, face às crises financeiras que abalaram o mundo nos últimos anos, está voltado, conforme opinião deste expositor, ao delineamento de instrumentos propícios para a administração da prosperidade. As crises, na maioria dos casos, têm sido o resultado inevitável de prosperidade mal administrada –postulado que o autor também aplica às instituições internacionais– já que os graus de liberdade das autoridades nacionais são maiores na prosperidade que nas crises. Daí a importância de transformar o centro de atenção das autoridades: do manejo de crise ao manejo da prosperidade.

From Managing the Crisis to Managing the Boom

Reynaldo F. Bajraj

Deputy Executive Secretary of the Economic Commission for Latin America and the Caribbean

Address delivered at the Panel «Latin American and Caribbean Options in light of the International Financial Crisis», held in Caracas, on October 27, 1999 within the framework of the XXV Ordinary Meeting of SELA's Latin American Council.

It is an honour that is greatly appreciated by ECLAC, to have been invited to the XXV Regular Meeting of the Latin American Council of SELA and to have this opportunity to share these words with you during the Panel "Latin American and Caribbean Options in Light of the International Financial Crisis". The Secretary General of the United Nations, Mr. Kofi Anan, was unable to attend because he has been detained at Headquarters by tasks that require his presence and cannot be postponed; however, I have been especially charged to convey his greetings and to wish you success. Mr. José Antonio Ocampo, the Executive Secretary of ECLAC also sends his best wishes.

The organisers of this Panel on "Latin American and Caribbean Options in Light of the International Financial Crisis" have deemed it timely for ECLAC to give a brief overview of its perception of the current situation so as to contribute to "painting," if you will, at this first session the backdrop against which discussions will be held. In order to do this, I will refer to the results of our most recent research and studies, as well as to the presentations by the Executive Secretariat. I will begin by alluding to the current social situation and then specifically proceed with the economic situation, to see how we are facing the crisis and, finally, I will end with our view of the situation and the functioning of the international financial system.

The 1998 Social Outlook for Latin America made public by ECLAC at the beginning of this year, contains a complete balance of the region's achievements in the social area during the nineties, but it also shows the inactivity and setbacks. Without doubt the most important progress made has been in reducing poverty. The proportion of poor households decreased from 41% in 1990 to 36% in 1997. It should be noted, however, that even with this improvement the region was unable to return to its pre-debt crisis, 1980 relative poverty levels. In fact, the proportion was 35% at that time and, therefore, in absolute terms the number of poor did not decrease but remained stable during the 90s at about 200 million Latin Americans, a figure which vastly exceeds the 136 million poor recorded in 1980. Although most of the poor population in the region today resides in urban areas, poverty and particularly indigence, have tended to remain at relatively higher levels in rural areas.

"Economic growth has not coincided with a proportional reduction in poverty."

The principal reason for the drop in poverty levels in the 90s has been economic growth. For this reason, Chile, the most dynamic economy in the region during the decade, has recorded the greatest progress on this front with thirteen percentage points. However, no automatic mechanical association can be made between a high growth rate and poverty reduction. This relationship is only strong when the growth is accompanied by a dynamic generation of employment in high-productivity activities, a pattern that has been absent in most countries of the region and, consequently, economic growth has not coincided with a proportional reduction in poverty. Rather, some countries have been successful in reducing poverty thanks to the efficient channelling of transfers from the public sector to poor households and the halting of hyperinflationary processes that considerably affected the low income population. The most noteworthy case is that of Brazil where the combination of these two factors brought about a twelve percent reduction in poverty.

Another substantial advance that has been made is the increase in public spending for social programs. Overall, that expense rose from 10.1% of the Gross Domestic Product (GDP) in 1990 to 12.4% in 1997. As a result, three-fourths of the countries were able to increase the level of social spending per inhabitant prior to the debt crisis. Moreover, more than half of the increase was earmarked for the expenditure areas with the greatest redistributive impact, such as education, health, and social aid. The greatest benefits to be derived from this policy will become apparent in the long term, because there is a relationship between the accumulation of human capital and growth with equality.

Unlike the preceding variables, the distribution of income shows no consistent trend towards improvement. In fact, the number of countries that have had setbacks in this area is higher than those in which there has been progress. This is of course very disconcerting because Latin America is the region in the world with the highest levels of inequality.

The inequality that characterises Latin America is a reflection of educational, employment and patrimonial factors, among others. As to the first factor, education, important efforts have been made by different countries which are beginning to bear fruit. Meanwhile, the other two fronts, patrimony and employment, have been stagnating and have also experienced setbacks. The latter is obvious in the case of employment. As the Social Outlook indicates, the decade has in fact been characterised in almost all the countries of the region by three interrelated and worrisome phenomena: an increase in frank unemployment, low generation of job opportunities in high-productivity sectors, and a growing gap in remuneration between the less and more productive occupations.

The economic slowdown experienced in 1998 and the recession that Latin America as a whole is currently facing, indicate that the century will end amidst difficult tensions on the social front. The deterioration of the labour market is the most direct effect of the crisis, and given the connection between growth and poverty, it is probable that the latter will increase. Overcoming the "equality gap" - as it was named by ECLAC a couple of years ago - at the dawning of the new century will continue to be the immense pending task of Latin America.

The "Economic Survey of Latin America and the Caribbean" of which an installment was prepared by ECLAC two months ago, and of which the completed version is now available, contains an analysis of the effects of the recent crisis on the countries of the region. The effects of the international crisis unleashed in Asia in mid 1997 proved to be more profound in the long term than all analysts had initially believed. The entire region went into a recession in the second half of last year and that situation continued through the first half of 1999. Because of the significant effect of the recession in the first half year, there will be no growth in the region for the year and it may in fact experience a small drop.

There have been signs however for a few months now of a more or less generalised easing of conditions that will permit recovery during the second half of the year. In fact, there are positive signs associated with the renewal of capital flows beginning in the second quarter, and there has been a strong reduction in internal interest rates in a number of countries, although exports have not increased. The export activity continues to be seriously affected by the drop in the prices of many raw materials and a trade reduction in two of the largest integration blocks in the region: Mercosur and the Andean Community. The slowdown in the growth of trade in these dynamic integration processes is, without doubt, one of the major negative effects of the crisis.

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Of course, this global panorama masks situations that are quite distinct. Overall, just as in 1998, the most welcome surprise will be the performance by those countries driven by exports to the dynamic U.S. economy, with less dependence on more volatile capital flows, as is the case of Central America and a few Caribbean countries. The most dynamic economies will be the Dominican Republic and Costa Rica, two small economies. Among the larger ones, Mexico will perform much better than the South American economies. This indicates moreover that the recession has been concentrated in South America. To a varying degree, the negative rates are generally visible in all South American economies, except for Peru and Bolivia, which will have moderate growth.

What have we learned from this crisis? First, that our economies continue to be very vulnerable in the presence of an international market with highly volatile capital. On the international scene instruments for handling the crisis have improved, but the progress made is still unsatisfactory. The feeling of complacency that appears to have taken hold of the principal international actors on this front is worrisome, because it will diminish the efforts directed at improving an international financial architecture that was identified during the crisis as the main factor in world-wide economic instability. On the local scene, it has become patently clear that during the reform process undertaken there was insufficient action to reduce volatility when confronted with capital cycles, and particularly to prevent excessive capital influx and the unsustainable expansion of spending during the periods of financial boom. Progress has been made (still insufficient) with respect to public spending, but not in private spending that still tends to grow excessively during those periods of boom. This is a topic to which ECLAC has insistently drawn attention and which must be decisively confronted in the future.

What is the behaviour of the international financial context in which our region participates? The international financial crisis that began in Asia two years ago ended by forcefully spreading toward Latin America. Although the return to the market by some

Latin American countries in the second half of 1999 has been faster than after the episodes of October 1997 and August 1998, market conditions are still far from being normal: indebtedness costs continue to be high and the availability of funds is scarce. We are convinced that the financial instability will trigger new episodes such as those that occurred prior to the Asian crisis, or the "tequila" episode of 1994, to only mention one closer to us in time.

Volatility and contagion have been the favourite terms used by analysts to describe the two core elements of the financial market's behaviour during these crises. The first expression, "volatility," refers to the market's tendency to experience cycles of financial upswings and panic, at which time it tends to grow first and then contract beyond what the so-called fundamental factors of the economies justify in one and the other case. The second term "contagion" (and perhaps we should say "unjustified contagion") is indicative of the market's inability to appropriately distinguish among the different types of lenders and their tendency to extensively propagate booms and crashes.

"*We are convinced that the financial instability will trigger new episodes.*"

In order to handle financial instability on the national level, a complex set of institutions has been developed, particularly since the thirties, which act as both preventive and efficient intervention mechanisms to forestall the destabilising effects of the crises. This "financial security network," as it has been called, includes Central Bank functions as the lender of last resort, regulation and financial supervision; government intervention mechanisms to prevent the disorderly collapse of financial intermediaries; deposit insurance systems, etc. Although this network when set up on a national level does not always prevent a crisis from occurring, it has undoubtedly served to prevent the most chaotic manifestations of such crises, as for example the financial collapses experienced by many countries in the last century and in this one until the decade of the thirties.

There is a growing consensus that the increased frequency of international financial crises the world has had to face in recent decades demonstrates the absence of a comparable international institutional development. In other words, the frequency and magnitude of these upheavals is a reflection of the enormous asymmetry that exists between an international financial world that is becoming increasingly more sophisticated but unstable, and the regulatory institutions. To put it succinctly, the world lacks appropriate institutions for financial globalisation.

This fact is being recognised with greater frequency in international discussions. Moreover, those discussions have led to important agreements exemplified by the pronouncements made by the G-7 group, the Heads of State and Government of our region, the International Monetary Fund and other organisations, including a relatively recent document of the U.N. economic and social organisations, with ECLAC acting as the coordinator in its preparation. To begin with, there is agreement regarding the necessity of maintaining expansionist policies in the industrialised countries while the current financial uncertainty exists, and of having available contingent financing to support the countries that are experiencing crises before and not after their international reserves reach critical levels.

There is also a fundamental agreement regarding the advisability of having better information, of harmonising international codes of conduct in diverse areas and of improving prudent supervision and regulation, globally.

No less important is that fact that it is being broadly acknowledged today that liberalisation of the capitals account must be orderly and cautious, particularly as regards short-term flows which, as a prerequisite, should have efficient and prudent national regulatory and supervisory mechanisms in place and any international regulations in this regard should incorporate safeguards to confront difficult situations. Lastly, there is also broad consensus regarding the need to strengthen the social protection networks to prevent the negative effects of adjustment processes from affecting the most vulnerable groups of society.

These and other important agreements notwithstanding, multiple discrepancies still exist however, some of which are of decisive interest for developing countries. The first and most important is with respect to the financing of contingency mechanisms. The periodic contributions by industrialised nations to the IMF or to specific contingency credits have proven to be a slow and uncertain financing method. Much more reliable instruments, in terms of their efficacy in quickly responding to additional liquidity demands in periods of crisis, need to be designed. The active use of special drawing rights with this in mind would undoubtedly be very appropriate. The establishment of such rights during crisis periods could even be accompanied by their automatic destruction in subsequent recovery periods, thereby including an anti-cyclical ingredient in the handling of international liquidity. But this, which is of the utmost interest for developing countries has not received unanimous approval.

The other controversial topic is the conditionality of contingency financial support, specifically the conditions imposed by the International Monetary Fund. Therefore, in the absence of adequate legislation and most especially of an appropriate international regulatory framework to prevent crises and to set down clear rules of access to contingency resources in appropriate quantities, in our opinion, developing countries must keep the handling of capitals accounts independent, but this also has proven to be a motive for discrepancies.

The current situation has provided a valuable opportunity to rethink the role of regional and subregional financial institutions. We are convinced that an international financial order which includes a network of reserve funds and regional and subregional development banks, and not just a few global bodies, would not only contribute to international economic stability, but also to a more equitable situation world-wide. The debate regarding this issue however has barely begun.

“*The current situation has provided a valuable opportunity to rethink the role of regional and subregional financial institutions.*”

Finally, we should recall that the forcible attention attracted by the topic of financing to confront the crisis would not divert attention from financing for development, as such. It is necessary to do away with the trend exhibited by aid for development of a bilateral origin, which has dropped from 0.35 % of GDP in industrialised countries in the 80s to 0.22 % in 1998. It is also necessary to maintain a high and stable rate of growth in multilateral credit for long-term productive investments. This is decisive not only for the poorest countries, but also for middle-income countries, especially the smaller ones that cannot easily access private flows.

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Now, turning to the national scenarios, the crisis has made evident that Latin America and the Caribbean and the developing world in general remain extremely vulnerable to external financing cycles. This clearly draws attention to the need for adequate national mechanisms that can be used effectively in the face of these external factors. In view of this, I would like to conclude by referring to a simple yet central issue: how important it is that the authorities change their focus. Instead of centering their efforts on crisis management, greater attention should be directed at managing periods of boom. In most instances, the crises are the result of poorly managed booms. This theory inevitably applied to international institutions is just as valid in the case of national policies.

By dedicating all attention to crisis management, a very evident fact is overlooked: that levels of freedom granted to national authorities are much higher during boom periods than during crises. Boom periods characterized by excessive increases in government and private spending will inevitably call for adjustments, whose severity is determined by previous excessive spending. Currency overvaluation based on transitory capital income or extraordinary prices of export products exerts tremendous pressure on foreign exchange rates or interest rates, once these transitory phenomena disappear.

"By dedicating all attention to crisis management, a very evident fact is overlooked: that levels of freedom granted to national authorities are much higher during boom periods than during crises."

Consequently, the main challenge in managing external vulnerability is to design appropriate tools to manage booms. Instruments of this kind must first of all include mechanisms to sterilize transitory fiscal income. Partial experiences with stabilization funds linked to exported commodities have been increasing in several countries of the region. These experiences should also be applied in managing transitory tax income levels in general. This entails that fiscal objectives should be determined not on the basis of the current year's fiscal deficit but on the basis of some type of measure taken in respect of the structural deficit, as is done by OECD countries.

As for the monetary and foreign exchange aspects, the deposit requirement on foreign currency liabilities being successfully applied by some countries is an example of a mechanism that serves to maintain adequate, temporal structure of liabilities and moderate foreign exchange and monetary pressure that emerges during periods of bonanza.

I have in fact directed my focus, in accordance with the agenda of the meeting, on financial issues, but it is understood, that efforts made in this terrain are a necessary condition, but not sufficient, to make progress in the sphere of that which ECLAC refers to as "Productive Transformation with Equity" as a strategy that targets the ultimate objective sought through public policy, that is to promote opportunities and the population's well-being.

Our region is making progress, although with great difficulties, on the road to economic development with social equity, but external global circumstances, in addition to providing new opportunities – such as those that emerge as a result of growing trade and financial flows - pose new threats and put us before new challenges. Cooperation among the countries of Latin America and the Caribbean, in its multiple possible forms, beginning with the discussion and comparison of alternative strategies to deal with crises in each country, such as the dialogue that brings us together today, following the course set for integration and perhaps achieving the link-up of efforts to promote a more rational and increasingly fair international financial order that is favorable for us all is, in my opinion, one of the region's most valuable non-tangible assets. The ECLAC Secretariat remains at your disposal to cooperate in whatever is in its reach so that this asset grows stronger and its use is maximized.

Economic Union: An Alternative to the Crisis?

According to FLAR, Latin American and Caribbean countries could consider economic union as an alternative to effectively compensate for the contagion from foreign financial crises and to stabilize their economies. To this end, the countries of the region should adopt a number of internal economic measures and develop their own supranational financial organization, something like the IMF, to foster the consolidation of regional integration and open the door to monetary union, the forerunner of political union, the ever present Bolivarian dream.

Unión Económica ¿alternativa a la crisis?

La unión económica de los países latinoamericanos y caribeños constituye una alternativa –según el FLAR– para compensar de manera efectiva la intensidad del contagio de las crisis financieras externas y estabilizar las economías nacionales. Para ello, además de las medidas de carácter interno que debería adoptar cada país, la región tendría que contar con un organismo supranacional propio, una especie de Fondo Monetario Latinoamericano que permitiría no sólo la consolidación de la integración regional, sino que abriría la puerta hacia la unión monetaria, precursora de la unión política, el sueño bolivariano aún no realizado.

Union économique: une solution à la crise?

L'union économique des pays d'Amérique latine et des Caraïbes est, selon le FLAR, l'une des solutions permettant de combattre efficacement l'effet de contagion des crises financières extérieures et de stabiliser les économies nationales. Outre les mesures à caractère interne à adopter par chaque pays, la région devrait disposer d'un organisme supranational propre, une sorte de Fonds monétaire latino-américain qui permettrait de consolider l'intégration régionale, et ouvrirait en outre la voie à l'union monétaire précèdant l'union politique, le rêve bolivarien encore irréalisé.

União Econômica: alternativa para a crise?

A União Econômica dos países latino-americanos e caribenhos constitui uma alternativa –segundo o FLAR– para compensar eficazmente a intensidade do contágio das crises financeiras externas e estabilizar as economias nacionais. Para tal fim, além das medidas de caráter interno que cada país deveria adotar, a região deveria contar com um organismo supranacional próprio, uma espécie de Fundo Monetário Latino-Americano que permitiria não só a consolidação da integração regional mas também abriria a porta para a união monetária, precursora da união política, o sonho bolivariano ainda não realizado.

ANALYSIS

Economic Union: An Alternative to the Crisis?

➾ Roberto Guarnieri
Executive President of the Latin American Reserve Fund

Address delivered at the Panel «Latin American and Caribbean Options in light of the International Financial Crisis», held in Caracas, on October 27, 1999 within the framework of the XXV Ordinary Meeting of SELA's Latin American Council.

The invitation which the Permanent Secretary of SELA, Dr. Carlos Moneta, on behalf of the Latin American Council, extended to me to address this assembly is both a privilege and an enormous responsibility.

I do so as President of FLAR, the Latin American Reserve Fund, a financial institution established twenty years ago under the name of Andean Reserve Fund.

As far as membership goes, FLAR continues to be an Andean Institution. I hope this remains so for not a long time. We are in the midst of fully developing a systematic endeavor aimed at transforming it gradually into an authentic Latin American organization, pursuant to the objective that served as basis for the adaptation of its statutes in 1991. The National Assembly of Costa Rica is now studying the draft law to adhere to the Fund. Other bilateral projects are underway.

Meanwhile, as a result of the annual meetings of the World Bank and the International Monetary Fund last month in Washington, our proposal for institutional expansion was reiterated at the plenary Assembly of the Governors of Latin American Central Banks. This is not a mere formality. It responds to a rigorous examination of the current and future needs of Latin American countries in the areas that are within the scope of the Latin American Reserve Fund: monetary stabilization and economic integration.

We made the proposal because we are convinced of its extraordinary importance. Because we believe that it is very important to strengthen Latin America's supranational institutional structure in the monetary field in order to effectively compensate the intensity of contagion of the external crises and stabilize national economies. Because economic stability is crucial to sustain the process of regional and Latin American integration.

Basically, our ultimate objective is the economic union of our countries. And we have absolutely no doubt about the road to follow to obtain it. It depends critically on internal and external economic stability. What is most important, most indispensable is that our Governments and Central Banks be convinced of this and its consequences as regards the formulation of economic policy. That you, Ministers, consider it one of the State's priority objectives, and support its implementation.

"Without monetary integration, the integration of nations or regions will remain forever incomplete and precarious."

Therefore, I will devote the rest of this presentation to an explanation of its relevance. In particular, I will concentrate on the close relation that exists between currency and integration. On its meaning for the later definition of state policies. And, therefore, on its implications for the establishment of aims and procedures as regards the economic cooperation and monetary policies between our countries.

My starting point is the conviction that prevails throughout Latin America of the relevance of integration. I believe that we are appreciating more and more –and the European example is a determining factor in this respect– its extraordinary economic, social and political importance. But at the same time there is an equally generalized perception that it is difficult. And this is quite right. Europeans know that the road to integration is long and difficult. But there they are, proud –as they should be– of their magnificent achievement: a common currency, an European Central Bank.

The Euro undoubtedly represents the most finished symbol of the culmination of a process that without exaggeration can be called impressive, because of what it means and because of the very short period of time, historically speaking, that it required.

Currency has always been the paramount representation of political unity, sovereignty, national affirmation. It is therefore an essentially integrating element par excellence. Previously, at national level, and now, in this new world economic order that is being forged on a supranational scale. Without monetary integration, the integration of nations or regions will remain forever incomplete and precarious. With integration, on the other hand, it becomes irreversible. There can be no real and permanent economic integration in a determined geographic space if the bases of a common currency are not established.

If we really believe in integration, our aim should be monetary union. *Is this ambitious?* Of course it is! Is it difficult to achieve? Certainly. But we should ask ourselves: Is it possible? Undoubtedly. It is up to us to achieve it and it depends exclusively on own determination, decision and effort. I think that it is not only possible to do it but that it would be –if I may say so– irresponsible to give it up, if we are convinced that it is a desirable aim and, in its projection, a formidable historical achievement.

What should be done then? A significant number of things. But we must understand that the work we have ahead of us is complex. It requires intelligence, decision, constancy and time. It presupposes systematic, coordinated national actions and supranational actions that complement and strengthen them. The starting point, which at the same time imposes the need for an extraordinary discipline and political vision, is the stability of national currencies. Until a healthy currency situation is consolidated in each of our countries any progress made in integration will be precarious and uncertain. This, without any doubt, represents the major obstacle confronting Latin American integration: the current situation of monetary instability.

Important progress has been made in recent years in all our nations but we still have a long way to go. In some, much more than in others. But there is a very important fact which, astonishing as it may seem, is relatively recent. And this is that throughout Latin America, we are becoming increasingly convinced of the absolute priority that monetary stability should have in the general economic policy. This is so, first, of course, in the central banks but increasingly in other sectors and, above all, at the level of the governments themselves. It is a very auspicious development because it recognizes, even at a political level, more inclined or obliged sometimes to short-term calculations, the importance of a healthy currency to continuously sustain –without fluctuations or reversals– the process of growth, the channeling of savings to productive investment, the efficient allocation of resources and, through this, the most effective realization of national economic potential.

But determination is not enough to eliminate inflation. The decision to do it should be backed by adequate intervention mechanisms and institutions to guarantee the maintenance of stability in the long term. Institutions designed to neutralize internal or external impacts on the economic policies that attenuate the initial adverse effects of these shocks which would otherwise produce accumulative consequences and the loss –once again– of monetary stability and consequently the exchange rate stability.

Because the other side of price stability is the stability of the foreign exchange. Once the balance of foreign exchange between countries attempting to effectively reach integration is destroyed or left in a precarious state, what single market can there be? Strictly speaking, none. Conceptually, an integrated market presupposes the absence of factors that differentially affect the setting of prices inside the specific territory. Therefore, it means uniformity from different points of view. For example, from the taxation and tariff viewpoints. And, therefore, convergence toward common regulations will be indispensable in this and other areas that are determining factors in price setting. But that is not enough.

Another necessary condition –while there is no sole currency– is that it be possible to establish through time the ratio of monetary values in the entire pertinent geographic space with the same degree of certainty with which this can be done in each individual country. This implies a monetary equilibrium situation in our countries that will allow us to maintain relatively stable exchange rates among national currencies.

It is important to appreciate the significance and implications of this condition because obviously it is not enough to fix a parity among the currencies by means of an official ruling. No, in order for this to be economically valid, so that it can lead to rational decisions desired on trade, consumption and investment, the exchange parity situation must be perceived as invariable or with a very narrow variability margin over a relevant period of time.

In other words, there should be an absence of significant expectations of currency modifications during the time horizon needed to ensure that efficient decisions are made from the economic point of view.

But the absence of inflation is indispensable for this purpose. And to generalise and consolidate trust in currency exchange stability, that absence of inflation should first be maintained over a relatively long period of time. Therefore, the primordial goal of our national authorities should be to achieve price stability in the medium-term, no matter how.

But it should be stressed that this cannot be solely –sometimes not even principally– the result of monetary control. Among other conditions it is imperative that there be a sufficient degree of flexibility in the setting of prices and salaries. Thus, in a dynamic and efficient economy there is an ongoing need for adjustments in relative prices. Only in this way can changes in the respective supply and demand conditions be assimilated without the revival of inflation. And only by means of an adequate response by relative prices can adjustments be made in the behaviour of market – goods and services – labour – capitals –

participants consistent with economic efficiency and sustained growth in a context of stability.

It is therefore important to make the pertinent structural reforms in key sectors such as the fiscal and labour sectors which improve the mobility of these productive factors. This is the most transcendental aspect in achieving monetary stability. But structural reforms pose a difficult task due to interests and advantages, some more imaginary than real, which are derived from the prevailing situation in the case of certain sectors. They therefore require a great deal of willingness and political backing. It might be politically costly to achieve it, but it is indispensable for establishing a firm foundation for effectively controlling inflation.

Moreover, the adaptation of the relevant regulatory and institutional infrastructure which specifically includes the financial and banking system, along with the fiscal area and the labour market previously mentioned, should be accomplished within the context of the integration process or, in other words, on essentially common bases. This is the activity that corresponds to what has been labelled harmonisation and convergence of policies which, in addition to the institutional and regulatory areas, should include as regards specifically economic variables, inflation rates, external debt ratios, fiscal balance, interest rates and of course the exchange rates derived from all the previously mentioned variables. It is all this that we have to confront and do. And this is all possible.

Internally, the institutional pivot of this stabilisation process are the central banks that should be entirely autonomous in establishing their objectives and policies. Efficient and credible in terms of their moral authority and of the instruments at their disposal. The main complement lies in having a domestic banking system that is sufficiently capitalized, solvent and responsible in intermediation management. That is a lot to say. But even so, in the prevailing conditions of economic globalisation, which is the reference framework for this panel, this is not enough. This is not enough because of the potential destabilising effect of external clashes –that are principally manifested through capital movement– is significant and can transcend the internal financial and institutional capacity to handle them.

The inherent dynamics of capital movements, their intensity and duration and, therefore, the impact on national economies, exchange rates and prices will also critically depend on the status of the international reserves of the respective Central Banks, and of their capacity to access additional resources in a timely manner and in the appropriate amounts. Frequently, if the markets perceive a weakness in this area, even in situations of relative initial internal stability and equilibrium in the fundamental economic variables, the generation of adverse expectations can unchain accumulative movements that cannot be stopped. It is in these cases that the authority and force of the Latin American institutional system should come into play.

"In order to successfully confront external shocks, it is vitally important to be able to count on our own supranational monetary entity."

Therefore, I maintain that in order to ensure the continuity of national efforts and to successfully confront external shocks, it is vitally important to be able to count on our own supranational monetary entity to duly support governments and central banks when the need arises. This could mean the difference between stability and growth or volatility and recession. Between genuine economic integration or only one that is apparent and unsubstantial. I would like to emphatically repeat two considerations: the monetary aspect and the very nature of this entity. Monetary, because its function is stabilisation and should take place within the so-called monetary circuit: the central banks and national banking systems. And very much its own, because its standards and actions must be agreed to by us, without the application of external conditions, on the basis of the ultimate objective of integration and on the basis of its requirements of a monetary and exchange nature.

Allow me to say that the Latin American Reserve Fund, within its geographic scope, has been working hard and successfully in this regard. A loan to a Member State for 411 million dollars in October last year and the recent provision of liquidity facilities to another for up to 500 million dollars, are positive proof of this success. But our current capacity to intervene could be rapidly overcome by the growing potential needs for the medium-term credit and liquidity that the international economic circumstances of the volatility of capital flows can impose on our countries. And we must be prepared for that event if we are to attend to those possible demands opportunely; to do it in amounts and terms consistent with the maintenance of monetary stability; to maintain the autonomy of our member countries in the formulation of their economic policies; to reduce their dependence on traditional sources of liquidity whose conditions and delay in turnover can be inconsistent with priority national and integration objectives. And to extend the scope of its stabilizing function to the rest of Latin America. Therefore the sustained increase of the current capital of one billion dollars and the expansion of membership to other central banks constitute our fundamental objectives. We are convinced that both are necessary to support an effective monetary stabilization in the region and to contribute to maintaining the course of Andean and Latin American integration. Not, of course, as apparently was said during the recent World Bank Assembly in Washington, to take space away from the International Monetary Fund. That would never do. On the contrary, we believe there should be complementary action between the two institutions. Our aims undoubtedly coincide in part, but the raison d'etre of the Latin American Reserves Fund transcends the IMF's objective. And that determines approaches, procedures, credit mechanisms and specific conditions.

Our appreciation of the relevance for our countries of this supranational monetary function is such that our aim is to turn FLAR into an authentic Latin American Monetary Fund. Few people doubt that the new international economic order will be articulated on the basis of country blocs. Competition will be integral and increasingly demanding. In such circumstances, Latin America's participation in the world context will be much more effective if it has a supranational monetary institution made strong and prestigious by its financial capacity and technical authority. Its own centre of the complementary, optimum and significant provision of international reserves, directly and through attracting them from the world capital markets, to attend to the needs of the Central Banks and the national banking systems if necessary, in the framework of collectively agreed terms. The Organization we perceive and towards which we are directing our efforts will be an essential instrument for consolidating the economic integration of Latin America, securing the road towards a common currency. History shows us that monetary unification has always been the forerunner of political unity. And that is the aim for us in the long run. The culmination of an ideal, which is the Bolivarian ideal that has been waiting too long for its realization.

"*Our aim is to turn FLAR into an authentic Latin American Monetary Fund.*"

Management and Prevention of the Crisis

In a global economy, no country is safe from contagion from an international financial crisis. For this reason and considering the experience of Asian countries and the harshly learned lesson that globalization is a two-edged sword, the author suggests that Latin American and Caribbean countries adopt a series of measures to prevent and administer eventual crises. These measures include the control of capital, foreign exchange regimes, macroeconomic measures, second tier reforms, financial assistance to the private sector and regional cooperation.

Gerencia y prevención de la crisis

En un contexto económico globalizado ningún país está inmune a los ataques de las crisis financieras internacionales. Por eso, a partir de la experiencia vivida por los países asiáticos y la dura lección aprendida en cuanto a que la globalización es "un arma de doble filo", este experto recomienda a los países latinoamericanos y caribeños tomar medidas con relación a seis puntos fundamentales para ayudarse a prevenir y gerenciar las crisis. Estos puntos tienen que ver con controles de capital, régimen cambiario, políticas macroeconómicas, reformas de segunda generación, asistencia financiera al sector privado y la cooperación regional.

Gestion et prévention des crises

Dans le cadre d'une économie globalisée, aucun pays n'est à l'abri des crises financières internationales. A partir de l'expérience des pays d'Asie, et de la dure leçon apprise, à savoir que "la mondialisation est une arme à double tranchant", cet expert recommande aux pays d'Amérique latine et des Caraïbes de prendre des mesures contribuant à gérer et prévenir les crises, se référant à six points fondamentaux : le contrôle des capitaux, le régime de change, les politiques macro-économiques, les réformes de seconde génération, l'aide financière au secteur privé et la coopération régionale.

Gerência e prevenção da crise

Dentro de um contexto econômico globalizado, nenhum país está imune aos ataques das crises financeiras internacionais; por isso, partindo da experiência dos países asiáticos e da dura lição aprendida no sentido de que a globalização é "uma faca de dois gumes", este especialista recomenda aos países latino-americanos e caribenhos que tomem medidas referentes a seis pontos fundamentais com o propósito de prevenir e gerenciar a crise. Estes pontos se referem aos controles de capital, regime cambial, políticas macroeconômicas, reformas de segunda geração, assistência financeira ao setor privado e cooperação regional.

Management and Prevention of the Crisis

Jungsoo Lee
Chief Economist at the Economics and Development Resource Center of the Asian Development Bank

Address delivered at the Panel «Latin American and Caribbean Options in light of the International Financial Crisis», held in Caracas, on October 27, 1999 within the framework of the XXV Ordinary Meeting of SELA's Latin American Council.

I am very pleased to take this opportunity to exchange views on this important and timely topic of "Options for Latin America and the Caribbean in Light of the International Financial Crisis." Since I am not an expert in Latin American and Caribbean economies, I will focus my remarks on our experience with the Asian financial crisis.

" Globalization is a two-edged sword. "

Like the Mexican financial crisis of 1994-95, the Asian financial crisis took everybody by surprise. It erupted at a time when developing Asia was widely recognized as a showcase of economic development. With Asia aggressively exploring the benefits of globalization through financial market and capital account liberalization, the region was assumed to be at the dawn of a new era of sustained economic development. Building on past economic performance and sound economic fundamentals, foreign capital inflows, particularly short-term capital inflows, to these countries accelerated. This led to high leverage in the banking and corporate sectors of some Asian economies.

The Asian financial crisis served as a wake-up call to the policymakers in the region. The appropriate management of capital account liberalization and the challenges of globalization came to the forefront of policy discussion. Globalization is a two-edged sword. It enables developing economies to explore the global market for their products, introduce new technology and managerial know-how, and promote competition and overall economic efficiency. In a nutshell, globalization provides new impetus to sustained economic development. However, globalization also increases the vulnerability of developing economies that have not adequately prepared themselves for it. It is now fully recognized that in the globalized economic environment no country is free from financial crises. In this connection, I would like to highlight six major issues related to the management and prevention of international financial crises.

Capital Controls

"Ill-planned liberalization of capital flows can result in financial instability."

The first issue is capital controls. The record of financial crises shows that ill-planned liberalization of capital flows can result in financial instability. When countries open up their capital accounts without effective supervision and regulation of financial intermediaries, they become more vulnerable to crisis, because globalization magnifies the weaknesses of domestic financial system and distortions in domestic policies.

This suggests that capital account and financial liberalization must be carefully sequenced. The emphasis on sequencing does not necessarily mean that developing countries should backtrack on globalization. For countries that are determined to stay engaged in globalization, the choice is accelerated policy and structural reforms.

A number of structural reform proposals are designed to assist the sequencing process. Some proposals concentrate on improving market regulation, bank supervision and transparency standards. Others concentrate on minimizing the risks associated with capital flows, by focusing on measures to discourage short-term borrowing in foreign currency, which is widely regarded as the most dangerous form of foreign capital. The goal is not to prohibit short-term capital transactions, but to indirectly control them by increasing their relative cost. The Chilean type taxes on capital flows is one option that could be looked into by Asian countries.

Exchange Rate Regimes

The second issue is exchange rate regimes. The Asian crisis has shown that fixed, but adjustable, exchange rates are difficult to sustain in a world of increasing capital mobility. Sooner or later such exchange regimes are likely to be tested by a speculative attack. The fixed, but adjustable, exchange rates also create an illusion of permanent currency stability, and they reinforce the incentive for financial institutions and firms to borrow from abroad without hedging.

Given these problems, the consensus now is that only the extremes of exchange rate management are likely to succeed. Countries must allow their currency to float freely, or adopt a currency board (or enter into a currency union).

Macroeconomic Policies

The third issue is the management of macroeconomic policies. It is now well understood that maintaining a sound macroeconomic environment is the first step in preventing a financial crisis. However, once a country is struck by a financial crisis, the management of macroeconomic policy becomes more difficult. The IMF-led rescue packages to crisis-affected Asian economies all contained tightening of monetary and fiscal policy. Tight monetary policy with high interest rates aimed to restore investor confidence, stem capital outflows, and stabilize the currency. The IMF maintained that because of the time needed for other structural reforms to take hold, the only way to stabilize a crisis situation quickly was to raise interest rates with sufficient resolve.

Tightening of fiscal policy was also considered necessary to reduce domestic demand with a view to lowering current account deficits, and to make room for the expected expenditure necessary to bail out insolvent banks.

Critics of the IMF, however, argue that tight monetary policy, especially high interest rate policy, was misconceived and counterproductive. They point out that high interest rates forced highly leveraged corporations into bankruptcy. Widespread bankruptcies in the corporate sector weakened the financial system as banks' corporate customers failed to repay their loans. This in turn encouraged capital flight and further depressed the exchange rate.

Critics also claim that the fiscal tightening simply exacerbated the enormous economic contraction already taking place in the region. In the face of collapsing output, they argue, fiscal expansion with a small budget deficit would have been more appropriate.

This controversy is still going on and no clear verdict is out yet. In particular, the evidence on the impact of high interest rate policy is inconclusive. This is certainly an important area where further research is essential.

In the case of fiscal policy, however, some conclusive evidence emerged as the Asian financial crisis proved to be much more severe than expected and the social impact of the crisis was so harsh that, with the implementation of tight fiscal policy, the sustainability of the required reforms was threatened. Fiscal targets in crisis-affected countries were, therefore, soon relaxed to ensure adequate provision of basic social services and to stop the economies from sliding into deeper recession. Experience in Asia indicates that the use of fiscal tightening as a tool for the resolution of crises is inappropriate, particularly when the crisis was not caused by fiscal profligacy and when social safety nets were not strong enough to support the vulnerable groups in the crisis-affected countries.

"The use of fiscal tightening as a tool for the resolution of crises is inappropriate."

Second Generation Reforms

The fourth issue is the so-called second generation reforms for the prevention of crisis. The Asian Crisis demonstrated, quite unequivocally, that even economies that had consistently pursued and accomplished significant components of the Washington consensus were vulnerable to external shocks particularly in the context of open capital markets and globalization. It is now commonly agreed that institutional weaknesses in the corporate and financial sectors and governance problems in the Asian economies exacerbated the crisis as the investors lost confidence in the governance mechanism and withdrew capital.

To benefit from capital account liberalization and avoid its pitfalls, Asian economies must speed up structural and governance reforms, namely, the second-generation reforms that many Latin American and Caribbean economies pioneered in the aftermath of the debt crisis of the 1980's and the Mexican financial crisis of 1994-95. Maintaining sound macroeconomic foundations is not enough to prevent financial crises or avoid contagion. Asian economies need to strengthen their banking and financial systems, improve governance practices, and build an arm's-length relationship between the public and private sectors. In a world of ever-closer integration of national financial markets, Asia can no longer take advantage of globalization without strengthening its financial systems and exposing its corporate practices to the close scrutiny of foreign investors.

Furthermore, Asian countries need to implement reforms in the area of auditing and accounting as auditing and accounting practices still vary considerably across countries. Adopting international standards in auditing and accounting would help prevent national weaknesses from spilling over to the international level.

Financial Assistance to the Private Sector

Fifth is the important issue of "bailing in" the private sector. The Asian financial crisis clearly shows that IMF's financial resources are no longer adequate to bring about a quick resolution of international financial crises. The point of bailing in the private sector is to minimize moral hazard, and spread the burden of the financial crisis by ensuring that private investors and banks bear some of the cost. One approach, pioneered successfully by Argentina and Mexico, is to set up private sector credit lines before a crisis. Such arrangements have considerable potential.

The other approach is to introduce collective action clauses in bond contract with a view to facilitating the private sector involvement in the resolution of financial crisis.

More controversial are proposals to forcibly bail in private investors once a crisis has struck. Proposals abound, but there is still a long way to go for all market participants satisfactorily reach consensus on which specific proposals will work. There is an urgent need to develop market-based mechanisms to engage the private sector for crisis resolution and prevention.

"The Asian crisis has demonstrated the need for an early warning system."

Regional Cooperation

The sixth and final issue is regional cooperation in crisis prevention and management. The Asian crisis has demonstrated the need for an early warning system. While early warning systems existed at national and international levels, they were not very effective in predicting the crisis. These systems should be strengthened and to complement them efforts should also be made to develop economic and financial surveillance at regional and subregional levels. Given the virulent contagion effect of International financial crises, particularly among countries in the same region, a regional surveillance system, based on peer review and pressure, is becoming increasingly important.

Before I conclude my remarks, I would like to mention briefly the Asian Development Bank's reaction to the Asian financial crisis.

From its outset, ADB viewed the Asian financial crisis as different from traditional balance-of-payment crisis and thus requiring a different response.

ADB's effort was, therefore, multi-pronged and aimed to (i) accelerate banking and capital market reforms; (ii) promote market efficiency and competition in trade and industrial sectors; (iii) promote good governance in the public sector and corporate management; and (iv) mitigate the adverse social impact of the crisis through support for various social security measures.

Furthermore, ADB has been actively promoting regional initiatives in economic surveillance as a new pillar of the international financial architecture. As you may probably know, an ASEAN Finance Ministers endorsed the establishment of an ASEAN Surveillance Process as a complement to national and global surveillance mechanisms. The creation of the ASEAN Surveillance Process is an innovative measure for promoting regional cooperation in the new global environment. It recognizes the potential benefits of a surveillance process based on candid peer review.

"Crisis-affected Asian economies have remained engaged in globalization."

To provide technical support for the ASEAN Surveillance Process and assist our developing member countries in harnessing the benefits of globalization, ADB earlier this year established a Regional Economic Monitoring Unit within its Headquarters. More recently, the Government of Australia has joined ADB's surveillance effort by financing the establishment of the Asian Recovery Information Center, also housed at ADB's Headquarters. The Asian Recovery Information Center is an internet-based facility for collaborative exchange and analysis of information on social and economic effects of the crisis and Asia's recovery prospect.

Conclusions

Despite the severe impact of the Asian financial crisis, most crisis-affected Asian economies have remained engaged in globalization by pursuing far-reaching structural reforms while maintaining sound economic foundations. These efforts have been complemented by regional and global initiatives in strengthening the architecture of the international financial systems.

I am confident that as these reform measures bear fruit, developing Asia will emerge much stronger from the recent financial crisis, just as Latin American and Caribbean countries have become stronger after taking heed of the lessons learned from the debt crisis of 1980's and the Mexican financial crisis of the 1994-95.

My brief intervention today is largely based on our experience with the recent Asian financial crisis. But I hope it will be useful to Latin America and Caribbean countries as well.

Compared to Asia and the Pacific region, your region has a much longer history of regional cooperation. Asia will certainly benefit from SELA's rich experience in promoting regional cooperation and integration. We are looking forward to close collaboration with SELA in its development endeavors.

The Effects of the Crisis on Integration

Throughout most of the 1990's trade within the Latin American and Caribbean region grew steadily at a 12% annual cumulative rate, reaching a total of US$49 thousand million in 1997. Today, as a result of the international financial crisis, it is estimated that intra-regional trade in 1999 will decrease by 30% compared to 1997. This development is similar to the situation experienced in 1981 and 1983, when the great foreign debt crisis rocked the region's economies. According to the author, this boom and fall of trade flows forces us to reflect on the consequences the current crisis may have on the consolidation of integration arrangements in Latin America and the Caribbean.

Los efectos de la crisis en la integración

Durante casi toda la década de los 90 el intercambio comercial intrarregional había venido creciendo a una tasa acumulativa del 12 % anual, alcanzando, en 1997, los 49 mil millones de US dólares. Ahora, y como consecuencia de la crisis financiera internacional, se estima que en 1999 habrá una reducción, con respecto a 1997, del 30 % en el flujo comercial entre nuestros países, lo cual es, en términos relativos, semejante a lo sucedido entre los años 1981 y 1983, cuando la gran crisis de la deuda externa. Este auge y caída comercial obliga, según el expositor, a una reflexión sobre las consecuencias que puede tener la actual coyuntura de crisis en la consolidación de los procesos de integración en América Latina y el Caribe.

Les répercussions de la crise sur l'intégration

Pendant presque toute la décennie des années 90, les échanges commerciaux intrarégionaux se sont accrus à raison d'un taux cumulatif de 12% par an, atteignant 49 milliards de $ US en 1997. On estime à l'heure actuelle que les flux commerciaux entre nos pays diminueront de 30% en 1999 par rapport à 1997 en raison de la crise financière internationale, ce qui, toutes proportions gardées, rappelle ce qui s'est produit lors de la grande crise de la dette extérieure dans les années 1981 et 1983. Cette fluctuation des échanges commerciaux obligent, selon l'auteur, à une réflexion sur les conséquences éventuelles de la situation de crise actuelle sur la consolidation des processus d'intégration en Amérique latine et dans les Caraïbes.

Os efeitos da crise na integração

Durante quase toda a década de noventa, o intercâmbio comercial intraregional vinha crescendo numa taxa acumulativa de 12% anual, atingindo em 1997, 49% bilhões de dólares. Como consequência da crise financeira internacional, estima-se que em 1999 haverá uma redução, em relação a 1997, de 30% no fluxo comercial entre nossos países, o que é, relativamente, semelhante ao que aconteceu entre 1981 e 1983, durante a grande crise da dívida externa. Segundo o expositor, este auge e queda comercial obriga a uma reflexão sobre as consequências que possa ter a atual conjuntura da crise na consolidação dos processos de integração na América Latina e no Caribe.

The Effects of the Crisis on Integration

Juan F. Rojas Penso
General Secretary of the Latin American Integration Association

Address delivered at the Panel «Latin American and Caribbean Options in Light of the International Financial Crisis», held in Caracas, on October 27, 1999 within the framework of the XXV Ordinary Meeting of SELA's Latin American Council.

Because of the crisis we face, it is not easy today to analyze the options available for Latin America. More specifically, it is an even more demanding task to analyze these options when it was precisely this very crisis that affected the dynamics of integration in 1998 and even more so this year.

In effect, the 13th of January 1999 is a landmark date in the integration history of Latin America. It interrupted a trend that started between 1985 and 1986 when Brazil and Argentina started walking down the road of bilateral cooperation together. At that time the Cartagena Agreement, now the Andean Community, had also set out to strengthen itself after a difficult negotiation process. Later, with the re-launching which materialized towards the end of 1989, Andean integration began to overcome, in a definite manner, the difficult period of the debt crisis of the eighties. The integration euphoria was so intense that many were led to believe that in less than six years' time, a free trade zone would be fully established or on the way to being set up within a short period, encompassing at least some of the ten South American countries that were ALADI Member States.

But the entire negotiation process was delayed in later years. First, by the "tequila" crisis, which broke out in Mexico at the end of 1994 and whose repercussions were felt in other countries of the region. This was the first time that Latin America experienced an important impact generated by financial globalization. Second, when the crisis that befell several Asian countries in 1997 started to spread around the world. It found its way into Russia and made a second visit to our region, this time landing in Brazil on 13 January of this year.

As previously noted, the date of 13 January is of specific importance because we had been arduously building integration on the basis of a number of very important transformations, which included unilateral liberalization by Latin American countries. It should be remembered that this was executed with no counter-benefits from developed countries and was accompanied by a set of measures aimed at lessening the State's participation in national economic processes and the consideration of a number of issues that formerly were not even considered part of Latin American countries' national policies.

Nowadays, these transformations are more than just a part of these national policies; they are also becoming so generalized that joint positions need to be adopted to face up to the diversity of negotiation challenges which emerge simultaneously. That is the fundamental matter facing us at this time.

Despite delays, an important and significant network of economic integration agreements was created which sparked the spectacular growth in trade among all ALADI member states. In 1997, intra-ALADI trade reached over 49 billion dollars, accounting for 20 per cent of the total external trade of the member states of this Association.

This unprecedented increase in intra-regional trade was tied to a number of other relevant changes. First, the spectacular rise in investment; not only foreign investment but also intra-regional investment. This phenomenon was accompanied by a marked increase in inter-business arrangements that took the shape of strategic alliances and by the establishment of Latin American enterprises in other countries of the region. Hence, trade mechanisms were becoming more fluid providing strong support to the regional integration process.

Likewise, progress was made in the realm of infrastructure and transportation, from both the demand and supply sides. Advances were also made in the joint exploitation of energy resources as well as in trade in services between Latin American countries.

From a more general view, important feats were accomplished during this past decade. The first event that merits mention is the incorporation of Cuba into ALADI, the first country to adhere to the 1980 Montevideo Treaty 19 years after its establishment. Similarly, relations among countries of the Latin

American region have expanded, beyond the economic sphere and into the political terrain. An example of this is the estasblishment by Mercosur (to our understanding the most successful sub-regional agreement ever undertaken by Latin American countries) together with Chile and Bolivia, its associated members, of a Peace Zone within the framework of ALADI.

This bears a transcendental meaning for political cooperation in the sphere of Latin American integration. In the entire history of integration, (ALADI will be twenty years old next year, and almost forty years have gone by since the first efforts for integration were made with the creation of its predecessor, ALALC), this was the first time that six countries of the region declared a Peace Zone, free of weapons.

"For the first time in the history of regional integration a group of countries, MERCOSUR's members, declares a Peace Zone."

The institutional aspects of integration processes in the region is a frequently discussed topic, stress being placed on shortcomings in relation to, for example, an institutional model that has been consolidated over a forty-year period, namely the European Union. Mercosur is systematically criticized particularly because of its institutional problems. First of all, no one can deny that all integration processes come across this type of problem at some point. But what is definite is that the milestone in the area of political cooperation outweighs any institutional criticism that can be made of the process.

A small parenthesis should be made here, setting aside the medium and long-term views in order to stop and look into the current situation. In 1998, as indicated earlier, trade flows between member states of the Association dropped as a result of the Asian crisis, its subsequent flare-up in Russia and the repercussions on global commodity and capital markets. This downward trend in intra-Association trade has grown worse this year. Trade flows, which on 1997 at one point exceeded US$ 49 billion, growing until that date at a rate of 12% per year, suffered their first slump last year. This year, trade flows will drop once more. Consequently, intra-regional trade for 1999 compared to 1997 will be 30% lower. In relative terms, this reflects a similar situation dating back to 1981 and 1983, when the region was struck by the debt crisis. Nonetheless, when the absolute figures are analyzed, even with the crisis situation, the level of trade still remains very important, particularly for some member states of the association for whom the co-participating countries of ALADI have become the main destination for exports as well as the main source of imports.

The rise in trade relations through 1997 and the subsequent drop should make us reflect, on the one hand, on the origins of the explosive force propelling integration in the region since the beginning of this decade and, on the other hand, on the impact that the current crisis may bear on the possibilities for consolidating integration processes throughout Latin America.

"Latin America has completed a very extensive economic and financial liberalization of its domestic markets."

In this regard, it is important to remember what sparked the dynamic pace of the integration process, which began with unilateral liberalization carried out by countries since the mid eighties (excepting Chile and Mexico which began earlier) as well as with their far-reaching economic reforms undertaken at a time of financial globalization.

Latin America has completed a very extensive economic and financial liberalization of its domestic markets, in the framework of its quest for improving its macroeconomic balances, by carrying out large privatizations in the context of slow growth in the main economies, with the exception of the United States of America. This indicates why the inflow of foreign capital has risen in recent years.

It is evident that what we have thus far called the "integration explosion" was buttressed by the recovery of the region's economic dynamism in the first years of this decade. This is largely the result of the structural reforms executed and of the economic policies aimed at re-establishing macroeconomic balance.

Notwithstanding, it should be pointed out that the reforms and policies referred to, and especially the large inflow of capital, also had other consequences. These consequences are more directly linked to the present situation. First of all, domestic currencies in general appreciated significantly. This appreciation came coupled with tariff reductions and the dismantling of trade regulation instruments, which explains the trade deficits with extra-regional markets as well as the imbalances in flows within the region itself.

Secondly, Latin American countries' financial systems' inability to adequately manage massive amounts of capital flowing in at the start of the decade led to misjudgments in the allocation of these resources. In other words, consumption was granted greater priority than productive investment, with even more importance being given to non-tradable goods sectors over the development of tradable goods.

Thirdly, in some countries more than others the weaknesses of the financial systems could not help but being noticed. In some instances, this was observed along with a marked decline in banks' institutional framework, the gigantic concentration of capital flows in high liquid assets.

As an end result of all the above, recessionary processes have emerged in the economies of the region. And as this happens, social deterioration and poverty throughout Latin America is becoming rampant. This could seriously compromise the stability of our countries' democracies.

"We need to reflect on integration in the area of finance."

In this crisis setting, what options exist for our integration process vis-a-vis the financial system? This is clearly an issue that has been overlooked by integration in Latin America. ALADI's role in the financial sphere is limited to the Reciprocal Payments and Credits Agreement which in the past provided financing for 82% of intra-regional trade but now barely finances 16 per cent of this trade. This trend reflects the fact that financial globalization has contributed to the emergence of a number of trade-funding mechanisms. As a result, there has been a decline in the transactions that are handled by the Convention guaranteed by the central banks.

The need for mechanisms to regulate the free inflow of capital is repeatedly pointed out at international fora. And this need applies especially to short-term capital, which gives rise to an array of problems for national economic policies.

This suggests the need to reflect on integration in the area of finance and to somehow also search for a way to tame the "wild horse" because the international self-regulatory mechanisms that were successful in the past seem no longer able to pull the reins in when the "wild horse" loses control.

Several countries have had to seek other mechanisms to ensure stronger regulatory structures than those of the past. This they have done taking into account that it is not only a question of regulating supply: the problem also involves finding a way to regulate outflows. Controlling the exit is virtually impossible at this time. Contagion and stampeding are two effects that can accompany these outflows when the feared situations are actually set off by fear itself.

And in this respect we should resort to a certain amount of self-criticism since as Latin Americans that we are we suffer from disaster shortsightedness. Many times we rejoice over solutions and short-term success, not only as regards national issues but also with integration concerns. But we are shortsighted vis-a-vis elements that could well indicate that a crisis is soon to beset us. Moreover, we do not face up to or battle these elements, not even inasmuch as to set up some sort of preventive mechanism.

"We should resort to a certain amount of self-criticism since as Latin Americans that we are we suffer from disaster shortsightedness."

These solutions or alternatives for financial integration that Latin America should analyze have a bearing not only on the events taking place at the regional level but also in the international scenario. Bretton Woods, for example, is no longer relevant to our current realities. The structure implemented at Bretton Woods was suited for a time when there were no massive transfers of capital, at that moment in time world trade had not reached the amounts or the quality it has now. At that moment in history the trade levels and financing methods that exist today were unimaginable.

A new financial architecture is therefore quite necessary. Obviously, political opposition exists. The USA has resisted changing this financial structure. Nonetheless, the truth is that neither the International Monetary Fund nor the World Bank can satisfy the needs of the world's new financial reality.

Ideas have been proposed for the region and these need to be seriously analyzed in light of the inter-relations and the quality of the inter-relations that have been established among Latin American countries. The national level too, of course, needs to be looked into in order to determine what actions are needed to prevent, at the level of Latin American countries' national economies, the onset of this damaging process that can be spurred by the globalization of capital markets.

The horizon is not entirely clear, although some clouds over the region are starting to dissipate. The pessimistic growth estimates originally forecasted for the region this year fortunately were not reached. Consequently, expectations for growth in some countries are rising. But for other countries the opposite is happening. Either way, however, the economy of the region is undergoing a significant contraction which is already having an impact on Latin American integration.

Financial globalization and international capital flows play an important part in the region's current economic situation. They also bear a clear impact on its integration process. Independent attempts made by countries to deal with these problems apparently are not the best way to treat the matter. Just as in other aspects of regional integration and economic development, the very least that is required is a coordinated effort.

"The economy of the region is undergoing a significant contraction which is already having an impact on Latin American integration."

The Social Dimension of the Crisis

Globalization and its effects are producing a number of legal and political developments that are transforming society. The author points out the strong links that exist between both types of developments. For example, the law is undergoing a transformation but no one seems concerned with this "mutation", as he calls it. And yet, this could affect the ways and mechanisms through which society manifests itself in a coherent and homogeneous manner when faced with problems.

La dimensión social de la crisis

Frente a la globalización y sus efectos se están produciendo acciones a nivel jurídico y político que también están transformando a la sociedad. En esta exposición, su autor pone de relieve los fuertes vínculos que existen entre esas distintas instancias. En su opinión, el derecho se está transformando pero nadie se está preocupando por esta "mutación" como él la califica, lo que puede incidir sobre las formas o mecanismos a través de los cuales la sociedad puede expresarse, de manera homogénea y coherente, frente a los problemas que confronta.

La dimension sociale de la crise

Face à la globalisation et à ses répercussions se produisent des actions aux niveaux juridique et politique qui contribuent aussi à la transformation de la société. L'auteur de cet exposé met en évidence les solides liens existant entre ces différentes instances. Le droit est, à son avis, en train de se transformer mais nul ne se préoccupe de ce qu'il qualifie de "mutation" pouvant influer sur les formes ou mécanismes à travers lesquels la société peut offrir une réponse homogène et cohérente aux problèmes auxquelles elle est confrontée.

A dimensão social da crise

Face à globalização e seus efeitos, estão sendo efetuadas ações a nível jurídico e político que estão, igualmente, transformando a sociedade. Nesta exposição, seu autor ressalta os fortes vínculos existentes entre estas diversas instâncias. Na sua opinião, o direito está se transformando, mas ninguém se está preocupando por esta "mutação", como ele a califica, o que pode incidir nas formas ou mecanismos através dos quais a sociedade pode se expressar, de maneira homogênea e coerente, diante dos problemas que confronta.

The Social Dimension of the Crisis

Jean Michel Blanquer
Director of the Institute of Higher Studies on Latin America

Address delivered at the Panel «Latin American and Caribbean Options in Light of the International Financial Crisis», held in Caracas, on October 27, 1999 within the framework of the XXV Ordinary Meeting of SELA's Latin American Council.

I owe my presence here today to the kind invitation made by Ambassador Carlos Moneta whom I thank for this honor.

What I have to say can be summed up in two words: *institutional framework.* Clearly I am not the first speaker today to have mentioned these words but I think that the matter of institutional framework is crucial in the case of societies' reaction to the financial crisis. This is tied to a view of society and mankind which sees man and society as one, and that does not believe in the homo economicus, but simply believes in man as a private dimension and also a political dimension that co-exists next to the economic dimension.

In the language of classic law an institution is something born of the communion of different individuals that believe in something and together join their efforts to defend a common cause. I think that the question that we need to formulate vis-a-vis political institutions is the problem of peoples' adherence to these institutions.

I will develop this idea by adopting a two-fold approach: The first example I will use will be that of integration. (Dr. Guarnieri's presentation aroused my interest when he spoke of the "European example" and the "creation of the Euro".) Regional integration largely illustrates the need for allied institutions. As he said himself, institutions are required to accompany the creation of a common currency. This institutionalization, of course, means that a bank can be created at the regional level, at the European level or at the Latin American level or at the South American level, for that matter. But I also would like to point out that some pressure needs to be exerted by institutional frameworks at the political level. For example, it is not by chance that in the recent past the political responsibility of the European Commission increased, with the resignation of the Santer Commission following the corruption problems that emerged in the Commission.

Therefore, the institutional framework issue must always be treated from the political standpoint as well as from the economic standpoint. And in the case of Mercosur, it is quite evident that the integration process currently lacks an institutional framework. The problems that arose between Argentina and Brazil following the devaluation of the *real* are a perfect example of this.

> "In times of financial crises there are sometimes legal reactions that transform our societies."

One can tell that these problems are related to problems that form part of the European Community's history and these are problems that are not easy to resolve because there is no real institutional framework at the MERCOSUR level. In other words, the President of Brazil or the President of Argentina, or Uruguay or Paraguay, need to resolve these problems; it is they who must settle the problems as there is no institution that can be trusted to take care of these matters, these problems. So problems that would normally be common start becoming bilateral problems and that does not help integration, and of course it does not aid economic progress.

Let us now turn to the national level. In times of financial crisis there are sometimes legal reactions that transform our societies. Normally the key concept used by everyone is the concept of the State of Law. I feel that not everyone assigns the same meaning to this concept and that international financial organizations view it as a framework that allows setting up economies or carrying out any economic activity without causing any problem with civil or political society.

From the political aspect, the State of Law is seen as something that is not talked about or discussed much. This is apparent in the constitutions of Latin America and right now in Venezuela's new Constitution. The Constitution has a list of rights and especially consecrated social rights. These social rights are presented as reactions to financial crises, to social problems that are the result of financial crises. This generates a type of denial of the State of Law because multiplying the number of rights and the ways of making these rights observed leads us into what we could name a society of rights (in plural). In other words, there are different judges, different ways of making one's rights respected, there are conflicts with respect to rights and this wreaks havoc in society.

This is something that needs to be looked into because this shows that there are contradictions between our way of seeing political and juridical reactions to the economic problems we face in the modern world. I will use but two examples to illustrate this case: first, the development of arbitration, which is being applied a great deal now in Latin America and in other parts of the globe, and which is presented as a way to facilitate economic relations, etc. But it is also a negation of the countries' or regions' institutional framework or of what is usually referred to as the pacific settlement of disputes. All these words which are becoming common in international language, these are things that deeply transform the concept of law. In other words, they transform the concept of what society is and the way it faces its conflicts.

And second, another case that needs to be emphasized is that of all the particular rights that emerge in societies as a way to compensate society's social difficulties or problems. The rights of women, rights of indigenous peoples, the rights of the physically impaired, etc. , etc. of all these communities. These rights are developed in modern constitutions in a very positive manner because they provide compensation for real problems. At the same time, however, they also lead to splitting up rights into smaller fractions and implementing a sort of positive discrimination as regards the difficulties which some sectors of society encounter in their daily lives. This too is changing our societies enormously.

To conclude, allow me to add that a very strong relationship exists between everything said here and our legal systems. Law as such is being transformed and no one seems to worry about this change; no one even gives any thought to this. My opinion is that there is excessive optimism as regards the mutations in law and this endanger our, let me call it, humanistic vision of institutional frameworks. In other words, it can endanger the possibility of a society being able to express itself homogeneously and coherently in the face of social problems.

Do forgive the generality with which I spoke but as I am the person responsible for the Institute of Higher Studies on Latin America our problem is to take note of the relationship between different fields, between economics, law, politics, sociology, anthropology, etc, and history and geography. I therefore consider it very important that an Organization such as this one serve as a reference for all those institutions interested in Latin America, and I also deem it of great importance that this legal dimension be borne in mind, without however putting aside the humanist aspect. And this is already the case, I know it is so.

Reflections on the Crisis

The recent international financial crises have revealed not just Latin America's and The Caribbean's permeability but also their vulnerability to external factors outside their control. This means that the time has come to introduce changes in these countries´economic policies. One of such changes involves reinstating the state's guiding role and strengthening its capacity to intervene in financial markets in order to reduce vulnerability vis-à-vis monetary upheavals.

Reflexiones sobre la crisis

Las recientes crisis financieras internacionales han puesto en evidencia no sólo la permeabilidad sino también la vulnerabilidad de América Latina y el Caribe frente a factores externos que escapan de su margen de acción, lo que implica la necesidad de introducir cambios en las políticas económicas gubernamentales. Y uno de estos cambios, de acuerdo a la expresado en la siguiente ponencia, es el de regresar al Estado su papel de orientador y fortalecer su capacidad de intervención en los mercados financieros, a fin de reducir los márgenes de riesgo frente a las turbulencias monetarias.

Réflexions sur la crise

Les récentes crises financières internationales ont mis en évidence la perméabilité et la vulnérabilité de l'Amérique latine et des Caraïbes face à des facteurs externes qui échappent à leur marge d'action, d'où la nécessité d'introduire des changements dans les politiques économiques gouvernementales qui, selon l'exposé à suivre, viseraient notamment à rétablir le rôle orientateur de l'Etat et à renforcer sa capacité d'intervention sur les marchés financiers afin de réduire les marges de risque face aux turbulences monétaires.

Reflexões sobre a crise

As recentes crises financeiras internacionais deixam patente não só a permeabilidade mas também a vulnerabilidade da América Latina e do Caribe frente a fatores externos que escapam do seu campo de ação, o que implica na necessidade de introduzir mudanças nas políticas econômicas governamentais. De acordo ao expresso nesta exposição, uma destas mudanças representa devolver ao Estado seu papel orientador e fortalecer sua capacidade de intervenção nos mercados financeiros, a fim de reduzir as margens de risco frente as turbulências monetárias.

Reflections on the Crisis

Carlos J. Moneta
Permanent Secretary of the Latin American Economic System

Address delivered at the Panel «Latin American and Caribbean Options in Light of the International Financial Crisis», held in Caracas, on October 27, 1999 within the framework of the XXV Ordinary Meeting of SELA's Latin American Council.

In this Panel, qualified experts and authorities from financial and economic organisations from our own region and from Asia and the European Union have presented stimulating analyses and suggestions for future action by Latin America and the Caribbean.

Allow me to approach these issues with some reflections from another point of view. As documents from SELA's Permanent Secretariat have described,[1] the Latin American and Caribbean region has witnessed, since the 1980s, the putting into practice of an economic paradigm applied with few variations to very disparate economies. By rejecting endogenous models, the agenda has been the same for the majority of countries: trade and financial opening, privatisation and downscaling of the public sector, elimination of subsidies, reform of social security systems, increased flexibility of labour markets, etc.

This single agenda has meant, on the one hand, the passive adoption of external "universal" models, and on the other, the existence of structurally uniform economies where market behaviour is similar. It also has a double premise: first, that the domestic institutional framework be ready to instrument the political changes required by the model; and second, that the international environment offer favourable conditions –above all stability– and financing flows for development. Regrettably, these premises are very far from being realised.

Since 1997, and much more clearly than in 1994-95, the crises in Southeast Asia and Russia, in the wake of their strong impact on the region, have resulted in a new phenomenon, directly linked to the globalisation process: starting in this decade, monetary and financial crises are having a broad, rapid and deep impact on trade flows and on the capacity for economic growth.

We are not in the presence of short-term disturbances but of profound turmoil whose fluctuations affect the bases of national economies and the global system. Their geographical extent is accompanied by serious inter-sectoral repercussions, which go beyond mere exchange adjustments and stock market crises to generate destabilising short-term outflows of capital. They increase the differentials in bonds issued by the region; result in the deterioration of the risk ratings of all emerging economies; make access to international capital markets more difficult and lastly contaminate domestic banking systems. Their impact extends to inter- and intra-regional trade flows, and the patterns of competitiveness of products and countries change, along with their prospects for penetrating markets.

"We are not in the presence of short-term disturbances but of profound turmoil whose fluctuations affect the bases of national economies and the global system."

For these reasons, from the point of view of Latin America and the Caribbean, the next few years are likely to be marked by the medium and long-term financial and trade impacts of current crises, among other factors, and by a concern for preventing and controlling the impact of future crises. It should be remembered that in recent decades, two of the four major financial crises originated in our region and the other two had a severe effect on it.

The crises and their repercussions have shown the permeability and vulnerability of Latin America and the Caribbean in the face of exogenous factors that escape their radius of action. This creates the need to make important changes in economic policies at the national, regional and international level, in business management, and for concerted efforts by the public and private sectors and by society in general. To successfully respond to this challenge –which questions the very basis of the dominant model of development and international integration of our countries– requires strong agents co-ordinated by state and civil society, that enforce the concept of democracy for the people. We need to promote a return to the role of the state as an orientator.

A state that has a powerful capacity for initiative and creativity to promote active policies - without complexes. A state capable of innovative responses to external compulsion and most importantly –in accord with civil society– to the complexity of the changes taking place in our societies by generating new spaces for democratic expression and political co-operation. A state that leaves behind neoliberal and populist views and focuses on social accords on equality, education, welfare, technological advances. Only the development of these dimensions can provide the inspiration, the social support and the conditions of governance needed to strengthen the viability of the State for external action.

We all know –and we have been to a certain extent the victims– of the massively promoted thesis of the decline of the State as a result of the process of economic globalisation. Accepting that developing countries'states have been severely affected, an examination of the type, quality and effect of their responses to the challenges of globalisation clearly indicates that the many different regions and countries have not reacted in the same way. Given that their socio-cultural and political structures possess specific and diverse traits, they react to external impacts in different ways[2]. The differences in these reactions stem to a large extent from the different combinations of elements that comprise the state-society equation and from each State's perception of its room for manoeuvre in the international system, always attempting to expand the limits of permissible action without incurring excessive penalties.

In this context, a comparative analysis of the strategies and actions adopted by the countries of Asia and Latin America vis-à-vis the financial crisis that began in 1997, offers a rich and productive opportunity for reflection and factual verification which can contribute to the determination of the direction and measures that are desirable for our region in the future. Similarly, the central points of interest of the principal economic actors need to be explored, as expressed prescriptively in beliefs (ideology), formal codes and rules of conduct to be followed in the world arena. These prescriptions are important for determining the role of the state in relation to financial and trade flows.

The basic phase of the analysis of the actions adopted by the main countries affected by the financial crisis in Asia and Latin America and the Caribbean was completed by ECLAC last year. There are also several studies on different aspects of the problem by institutions both inside and outside our region. I believe, however, that the central issue has not yet been adequately examined. Taking into account that our region is a newcomer in this matter, perhaps we should turn to Asia Pacific to review its evaluation of its own experience in relation to the changes that must be introduced in their strategic approach and economic policies.

> "*The reduction in the power of intervention of the State in the financial area could put the benefits obtained by transnational financial actors at serious risk.*"

Regarding the present turmoil and its possible resolution in the international financial system, it has been said that it is a "dictatorship by international finance"[1]. However, for other analysts[2], we are closer to a situation in which the most important actors in the international financial system –along with the countries subject to the turbulence of speculative financial flows– are all hostages although in different ways. Thus, the existing practices in relation to the free movement of short-term capital in the international system could lead to chaos if the national actors cease to apply responsible fiscal and monetary policies to cushion the brutal economic and social costs of these operations.

Moreover, the financial markets can punish –as they are in fact doing– states that do not abide by their rules, but in the long term their benefits depend on the existence and operation of an inter-state-transnational system in which national economies are led and managed by competent and responsible public actors. Beyond a certain point, the reduction in the power of intervention of the State in the financial area could put the benefits obtained by transnational financial actors at serious risk[3].

Two ways to explore open up here: first, a possible change of concepts and values in the criteria of responsibility of the decision-makers. Some modifications in this direction are beginning to be observed in multilateral financial organisations, regrettably still plagued by backtracking and inconsistencies. Second, the consideration of scenarios in which those who mobilise transnational capital, anxious to maximise benefits, do not measure –or do so incorrectly– the risks to which they subject national actors, provoking high economic, social and political costs in those countries. In this framework of possibilities, it can be strongly argued[4] that the strengthening of the capacity for state intervention in financial markets reduces risk margins to predictable levels, which would otherwise be intolerable. In short, if the economic globalisation process makes the exercise of this state regulatory power in the economic plane more difficult and even impossible, the transnational actors (transnationals; transnational capital) could be seriously affected. In this respect, the strengthening of the State in developing countries coincides with the basic interests of the transnational financial actors, even when many are not capable of realising this.

Lastly, two brief comments on some of the options for Latin America and the Caribbean.

Although the most critical aspects of the international financial crisis seem to have been overcome, the negative aftereffects both in Asia and in our region remain. Similarly, the situation of vulnerability, instability and uncertainty in the global arena continues. In this context, efforts should be made to expand the co-ordination of lines of financial defence at regional and subregional level, in addition to efforts aimed at the restructuring of international economic relations, the increase and qualitative change in external co-operation and the adoption of appropriate domestic policies. In fact, in several fora in recent months[5] it has become clear that for various reasons –particularly the firm refusal by the United States– the Group of Eight is incapable of undertaking a sweeping reform of the international financial system. For this reason, the developing regions are obliged to increase efforts to establish effective financial defences in their own domains. It is vital to stimulate the establishment of a network of reserve funds and regional development banks, as well as to review financial and trade links, consolidate banking systems, and develop savings and social protection networks in the national context.

"It is vital to stimulate the establishment of a network of reserve funds and regional development banks."

It is no coincidence that the Latin American Reserve Fund, ALADI, ECLAC and SELA are all present in this Panel (and the participation was expected of the Andean Development Corporation), accompanied by distinguished representatives from Asian and European institutions. We believe that an absolutely necessary condition, although not sufficient in itself, is to move toward very close co-ordination and co-operation on the actions of regional and subregional organisations of Latin America and the Caribbean to assist the countries of the region. Similarly, we consider that there is a broad space for developing co-operation with the Asia-Pacific region and the European Union in this and other areas of international activity linked to the development and construction of a more plural and equitable interstate-transnational system.

Let us recognise that the "market" is a hard category[6]. For many, it is the natural place for self- regulation through the competition of capital and labour; for others, it is a place where the exploitation of large segments of our societies takes place. The central question is by who and how is the market determined. The answer is that it is determined by power relationships. The discipline of international economic policy clearly reveals that international economic phenomena are the results of both economic and political factors. They are predetermined by power relations on an interstate-transnational scale between nation-states and the large private operators, partially structured into the institutions and regimes of the international economy. Diplomatic language may soften the tones and blur the contours of the landscape, but these are the realities we have to deal with.

The formulation and putting into practice of a system of mutual restrictions which simultaneously applies to states and private operators, designed to make both types of actors take into account the externalities that are created in a world of constantly increasing interdependence, requires us to stand on our own feet with growing self-confidence and vigour. We must bear in mind that alongside globalisation, many different expressions of regional integration are emerging. In this respect, economic regionalisation, accompanied by political regionalisation, can be expected to produce regional regimes. I believe we should unite our efforts in this direction.

Notes

1. SELA, ***Globalization with Development: Contributions Made by the Permanent Secretariat to the Agenda of Latin America and the Caribbean at UNCTAD X;*** *(SP/CL/XXV.O/Di No. 4), Caracas, 26-28 October 1999.*

2. *Carlos J. Moneta, in SELA-AECI,* ***El Laberinto económico,*** *Editorial Corregidor, Buenos Aires, October 1999.*

3. *See F. Block,* ***The Vampire State and Other Stories,*** *New Press, New York, 1996.*

4. *See F. Block, op. cit. and P. Evans, "The Eclipse of the State?",* ***World Politics*** *Nº 50, Oct. 1997.*

5. *E. Block, op. cit.*

6. *P. Evans, art. Cit.*

7. High-level Regional Meeting "Towards a Stable and Predictable International Financial System and its Link to Social Development" Foreign Affairs Secretariat of Mexico, Mexico D.F., 5 to 7 September 1999.

8. *F. Mires,* ***La revolución que nadie soñó o la otra modernidad,*** *Ed. Nueva Sociedad, Caracas, 1996.*

Financial Vulnerability: A Tamable Shrew?
This article is a summary of the paper prepared by the author during his end of 1999 internship at SELA's Permanent Secretariat, completing requirements for his Masters Degree in International Relations at Johns Hopkins University. In it, the author singles out the main factors determining Latin American and Caribbean economies' vulnerability vis-à-vis international financial upheavals and evaluates the national, regional and international options these countries face to confront the volatility of financial markets.

La vulnerabilidad financiera ¿una fierecilla domable?
El siguiente es un resumen del trabajo realizado por el autor durante una pasantía en la Secretaría Permanente del SELA, a finales de 1999, para obtener la Maestría en Relaciones Internacionales en la Universidad Johns Hopkins. En esta investigación, el autor pretende identificar los principales factores que determinan la vulnerabilidad de las economías de los países latinoamericanos y caribeños frente a las turbulencias financieras internacionales, así como evaluar las opciones –a nivel nacional, regional e internacional– que tienen a su alcance estos países para confrontar la volatilidad de los mercados financieros.

La vulnérabilité financière: une mégère apprivoisable?
Il s'agit du résumé d'un travail réalisé par l'auteur pendant un stage effectué au Secrétariat permanent du SELA à la fin de 1999 en vue de l'obtention d'une maîtrise de relations internationales à l'Université Johns Hopkins. Dans le cadre de cette recherche, l'auteur s'attache à identifier les principaux facteurs expliquant la vulnérabilité des économies des pays d'Amérique latine et des Caraïbes face aux turbulences financières internationales et à évaluer les possibilités s'offrant à eux aux niveaux national, régional et international pour affronter la volatilité des marchés financiers.

A vulnerabilidade financeira: uma fera domável?
Esta exposição é um resumo do trabalho realizado pelo autor durante um estágio na Secretaria Permanente do SELA no final de 1999, para obter o Mestrado em Relações Internacionais da Universidade Johns Hopkins. Nesta pesquisa, o autor pretende identificar os principais fatores que determinam a vulnerabilidade dos países latino-americanos e caribenhos frente às turbulências financeiras internacionais, bem como avaliar as opções –a nível nacional, regional e internacional– que os países latino-americanos tenham ao seu alcance para confrontar a volatilidade dos mercados financeiros.

Financial Vulnerability: A Tamable Shrew?

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CURRENT ISSUES

Introduction

For Latin America and the Caribbean, the 1990s might become known as the "decade of crazy capital". The increased financial flows that followed the liberalization and deregulation of the economies since the mid-1980s produced booms and busts of enormous dimensions and consequences. The so-called Tequila Crisis after the collapse of Mexico's peso in 1994 and the region-wide recession resulting from the Asian Crisis are the most notable examples of the disastrous effects that were brought about by sudden reversals of capital flows. Even though financial crises have always occurred in Latin America and the Caribbean, they have achieved a new quality and frequency in the last decade, due to the revolutionary changes in global financial markets and the new openness of the region's economies.

Financial crises can take different forms: currency crises, banking crises or balance of payments crises. All of these situations have in common a shortage of liquidity among certain actors in the financial system, so that some fundamental market mechanisms cease to work. In less developed economies, financial crises often represent a combination of the three cases, as balance of payments difficulties lead to a weak currency, which in turn causes bank runs and bankruptcies. In the analysis of a crisis, it is important to differentiate between cases of temporal illiquidity and real insolvency due to fundamental problems. In the latter case, a crisis can serve a useful purpose, because it initiates a restructuring of the underlying system. In the case of transitory illiquidity, on the other hand, a crisis has unnecessary severe consequences and can even lead to insolvency due to overreactions in the markets.

The increased volume and volatility of global financial flows has reinforced the linkages between economic systems and has thus made crises more frequent and more violent. Subsequently, a discussion evolved about the root causes of the current instability in global financial markets. Some analysts point to countries and claim that their irresponsible and unsustainable policies have made them vulnerable to economic turmoil. Others attribute the failures to the organization of international capital markets and emphasize that these suffer from serious problems of information asymmetries, moral hazard and collective action. Due to these differing explanations of the underlying causes of financial crises, the propositions for improvement also relate to different areas, ranging from the redesign of the international financial architecture to mere changes in national economic policies.

As often in the real world, the truth probably lies somewhere in between the various interpretations, and a solution is therefore neither simple nor unidimensional. Policy makers should consider their policy options at all levels and assess their relevance for the domestic economy. The prime objective should be to avoid shortages of liquidity and to establish mechanisms ensuring that temporal illiquidity does not result in insolvency.

"Domestic policies can, to a certain extent, determine a country's vulnerability to financial crises."

I. Reducing Financial Volatility at the National Level

Domestic policies can, to a certain extent, determine a country's vulnerability to financial crises, thus it is worth considering the policy options that the countries of Latin America and the Caribbean have at their disposition. These instruments concern the various economic spheres that have been mentioned in the prior discussion and should, above all, enable the economies to manage the boom that usually precedes a financial meltdown. If they succeed in preventing an overexpansion of the economy during periods of large capital inflows, the likelihood of a sudden and disrupting reversal will be significantly reduced and the country will be less susceptible to negative shocks from abroad.

1. Exchange Rate Regime

Recent experience has revived the old discussion about the appropriate exchange rate for a country, and supporters of both fixed and flexible exchange rates have seen their cases supported by recent events. So far, there are two main conclusions that might be drawn from the discussion and the empirical evidence. First, there is no blueprint for an exchange rate regime that can be successfully applied to every country in the world. Instead, there is a broad range of factors, which has to be taken into consideration in the choice of a system. Second, credibility is crucial for the sustainability of an exchange rate. Hence, once a country has adopted a specific regime, it should plan its economic policies in all areas in accordance with this system. If it fails to do so and exhibits sustained external imbalances, the economy will become subject to speculative attacks which will be impossible to withstand for a prolonged time.

As the analysis of costs and benefits of the various exchange rate regimes demonstrates, the choice of an exchange-rate regime involves a trade-off between stability and flexibility. Countries' decision as which arrangement to opt for depends largely on the relative importance of these two properties for the economy. This, in turn, is determined by the particular characteristics of a given economy and by policy makers' preferences.

Prior to the break-down of the Bretton Woods system in 1973, most of the region's countries operated under a system of fixed exchange rates. Only a few of them had adopted a crawling peg as response to domestic inflation in the 1960s. The unmodified peg was abandoned by most countries after the debt crisis in the early 1980s, and they established a variety of regimes of controlled exchange rates. In recent years, countries generally moved towards more flexible exchange rates –even though not always voluntarily but as a consequence of the force of the international capital markets– with the notable exception of Argentina which implemented a currency board in 1991 in order to bring down hyperinflation. Despite the trend towards flexible regimes, the volatility of the exchange rate has decreased considerably over the last decade for most countries, but it is still higher than in most industrial countries.

“Despite the trend towards flexible regimes, the volatility of the exchange rate has decreased considerably over the last decade for most countries.”

As empirical data shows, fixed exchange rate regimes have indeed brought about the benefit of more price stability. It became obvious, however, that the anti-inflationary benefits could only be reaped fully if this exchange rate was maintained without adjustment over long periods. Devaluations modified the rational expectations of economic actors and increased inflationary tendencies. Despite the apparent success of fixed exchange rates, it has to be noted, however, that the two most notable financial crises, Mexico in 1994 and Brazil in 1999, occurred in countries under a fixed exchange rate regime. Given the high dependence on primary products and the high volatility of their prices for many countries, fixed exchange rates are difficult to maintain.

Argentina's experiment with a currency board has so far been relatively successful. The country was able to defend its currency against a speculative attack during the Tequila crisis –although at high economic costs– and has enjoyed considerable growth rates. The arrangement came under renewed stress with the Brazilian devaluation in 1999, but policy makers have confirmed their commitment to the currency board and have even contemplated a full dollarization of the economy. At the same time, they suggested to their partners in MERCOSUR to follow their example.

Although inflation has been brought under control in most countries of the region as a result of the programs of structural adjustments, the phenomenon of de facto dollarization has increased in Latin America and the Caribbean. In some countries, the amount of dollar deposits in the domestic banking system significantly exceeds those in local currency. This seems to be the result of a persistent skepticism among economic actors, of a change in habits and practices, and of the increased insertion in the world economy. De facto dollarization has several negative effects on the economies. It reduces the effectiveness of monetary policy, leads to underdeveloped financial markets in domestic currency, and prevents that the benefits of a flexible exchange rate are fully obtained. In light of a high de facto dollarization, the option to adopt the dollar as the official currency becomes less costly.

There are other findings indicating that flexible exchange rate regimes have not led to a more stabilizing monetary policy in Latin America and the Caribbean. Most countries have not really allowed their currencies to float freely, mostly for fear of inflation. Instead, they relied on changes in the interest rate to perform adjustments, but these implied economic costs and a higher sensitivity to movements in the international markets. Monetary sovereignty, the main theoretical argument in favor of flexible rates, was therefore not really exercised. This assertion does not necessarily imply that flexible exchange rates are inadequate for the economies of Latin America and the Caribbean, but it demonstrates that economic policies have not been shaped in correspondence with the chosen exchange rate regime.

2. Liberalization and the Financial System

The pace and sequence of financial liberalization has a strong impact on the vulnerability of a country to financial disturbances. During the liberalization of the financial sector it has to be ensured that the existing institutions are capable of handling the increasing amounts of funds as well as their higher volatility. It is not advisable, for example, to allow short-term capital to enter before long-term investments, since this would create a bias towards more volatile funds and a higher risk exposure. Furthermore, decisions that strengthen the institutions in the financial sector and establish an appropriate regulatory framework are crucial for the prevention of banking crises and currency runs.

The most important goal of these reforms is to increase the liquidity of financial institutions and to control their exposure to rollover and currency risk. This can be achieved through various policies. The most direct measure with immediate effects would be to raise the reserve requirements for banks in order to increase their international liquidity. This does not address the structural weaknesses of a banking system, however, and therefore only offers a short-term solution. Additionally, it increases the costs for banks and place this burden on all institutions alike, weak or strong. Hence, banks will try to design instruments to circumvent the reserve requirements, leading to less transparency and market distortions. Alternatively, the government could set rigourous banking standards, and enact an effective supervision. This would be less costly for banks and would encourage the development of sound accounting standards, transparency, risk assessment and managerial know how. Additionally, the market would gain credibility, attract more long-term capital and therefore reinforce the stabilizing effects. This presupposes, however, that a precise regulatory framework exists, and that authorities have the skills and the legal instruments to properly perform their supervisory role.

> *"Part of the financial volitility in Latin America and the Caribbean can be attributed to the weak market structure."*

Apart from the close supervision of banking standards, competition is a key to more reliable financial institutions. The internationalization of the financial sector can prove helpful in this respect. It would be dangerous to liberalize a market with only a small number of institutions in operation, because these might be too weak to handle the emerging flows or might be able to achieve monopolistic positions. Internationalization also offers the opportunity to spread risk beyond national borders and to introduce sound management principles, modern technology and know-how from advanced economies.

A similar approach can be applied to the organization of financial markets itself. Part of the financial volatility in Latin America and the Caribbean can be attributed to the weak market structure with only a limited number of securities and low trade volumes. Countries should make efforts to deepen their markets by encouraging the introduction of modern technologies in financial markets and the participation of experienced firms in their functioning. This would also ensure the compatibility with the financial centers in industrial countries and facilitate transactions. It might even be useful to use a common technological platform for the whole of Latin America and the Caribbean in order to reach economies of scale, create a broader range of traded securities with higher volumes and attract more diversified financial actors. More developed markets would also allow for more efficient risk management through the use of sophisticated financial instruments.

"The countries of Latin America and the Caribbean have generally made great progress in the reform of their financial sectors."

Finally, problems of moral hazard have to be taken into consideration. The recurring banking crises in Latin America have demonstrated that lax management and a lack of supervision was common to many institutions and often led to insolvency. Banks should only have access to facilities of the central bank as lender of last resort, if they are temporarily illiquid but generally solvent. Lending in these situations should only be given at a penalty rate and against collateral. In this context, bankruptcy regulations also play an important role. Inadequate standards for cases of insolvency increase the cost of financial crises and might create additional problems of moral hazard for companies.

The countries of Latin America and the Caribbean have generally made great progress in the reform of their financial sectors. Nevertheless, most of them still lack a stable capital market with diversified actors, preferably acting with long-term objectives, such as pensions funds or insurances. In addition, these would help to diminish the region's traditional problem of low savings rates.

3. Capital Controls

The Asian crisis has also revived the debate about capital controls. This discussion had subsided with the widespread acceptance of the Washington consensus and its provisions for free movements of international goods and capital. The recent events have created serious doubts about the validity of the underlying assumptions, however. Countries have started to contemplate measures to confront financial volatility that go beyond open market operations by the central bank. An intervention can be economically justified, because the effects of short-term capital flows are externalities that prevent an efficient performance of the market mechanism. Intervention should aim at limiting the inflow of short-term capital during a boom and preventing over-indebtedness and excessive risk exposure of both private and public sector. It has to be born in mind, however, that national capital controls are only a second-best solution to externalities resulting from global capital flows. They create distortions and increase the cost of capital. A first-best solution would internalize the costs on a global scale.

In principle, controls could be imposed on capital inflows, on outflows or on both. There are several reasons, however, indicating that it is advisable to regulate only inflows of capital. First of all, the analysis of financial crises demonstrated that capital inflows usually preceded the collapse and were the main component in the evolution of instabilities. Additionally, controls on outflows would send a negative signal to investors and would thus increase the cost of borrowing. In the event of a capital flight, financial actors would most probably conceive ways to circumvent the controls and render them ineffective.

> "*There is still a very controversial discussion about the effectiveness of capital controls.*"

Similar to restriction on the international trade in goods and services, capital controls can take a variety of forms and consequently create different incentives for economic actors. They can either be quantitative and limit the total amount of capital entering the country, or they can impose a tax on financial flows. This tax creates a gap between the domestic and the international interest rates and therefore reduces the attractiveness for foreign investors and for domestic borrowers. The design of the tax can also create a distinction between short-term flows and medium or long-term investments. The capital controls that Chile enacted for some time are often quoted as the classical example. Investors had to place a certain percentage of their investment as unremunerated deposit at the Central Bank for one year. This measure was equivalent to a tax, but was relatively more costly for short-term flows that operate on smaller total margins than long-term investments.

There is still a very controversial discussion about the effectiveness of capital controls. Empirical evidence confirms that short-term controls can reduce the vulnerability of emerging markets and that the resulting stability attracts long-term capital that compensates for the loss in short-term flows. Nevertheless, critics often point out that capital controls are only used to cover up bad policies and that countries with sound macroeconomic fundamentals and a strong financial system will not suffer from financial turbulence, even without capital controls. There is some common ground between these positions, however, because the economies of Latin America and the Caribbean do not yet exhibit these conditions. It can therefore be argued that controls on short-term capital inflows are justifiable as long as the financial sector is weak, supervisory regulations and mechanisms are incomplete and risk-management in the private sector is underdeveloped. This implies that they are a temporary measure that should be faded out as the financial sector gains strength and depth. It also suggests that capital controls should not be used as an alternative to reform, but as a guiding support during structural changes. The experience has shown that over time capital controls lose their effectiveness, because financial actors find ways to circumvent them. They therefore only provide some stability during a transitory period but can not replace fundamental reforms and sustainable policies.

"Governments should design their tax system and the regulation of investments carefully in order not to create a bias towards short-term borrowing."

4. Debt Management

Unhedged risk in the debt structure of public or private entities has greatly contributed to the vulnerability of economies to financial disruption. As illustrated earlier, this exposed position consists either of rollover risk, currency risk or risks related to movements in world interest rates and economic performance abroad. Policies should therefore aim at reducing the exposure to each of these risks. Because public authorities have a direct influence on government debt, they should make sure that this is adequately covered. However, they also have to create the appropriate incentives and a supervisory system for the private sector in order to compel it to manage its debts effectively.

The policy options of controlled liberalization, close supervision of the financial sector and temporary capital controls which were discussed above can already reduce the exposure of the private sector to rollover risk. Additionally, governments should design their tax system and the regulation of investments carefully in order not to create a bias towards short-term borrowing. The underlying dilemma is that long-term borrowing is more expensive while short-term funds are readily available during booms. Higher costs for debt with long maturity are justified, however, if they help to prevent the immense disruptions that are caused by a financial crisis. Apart from that, the costs for long-term debt tend to decrease as the economy improves its macroeconomic stability.

The currency risk is directly linked to the choice of the exchange rate system. Under a truly flexible exchange rate regime, the private sector should hedge against its exposure to currency risk by using financial derivatives. In addition, supervision should ensure the liquidity of the banking sector. Higher reserve requirements for deposits in foreign currencies can also diminish the exposure of financial institutions. If the country operates under a fixed exchange rate regime, on the other hand, there is no currency risk, assuming that the peg is sustainable.

Governments should aim at both making economic policies compatible with the fixed exchange rate and prevent companies from running excessive debts denominated in foreign currency without safeguard measures.

Changes in world interest rates have similar effects as fluctuations in the exchange rate. If companies take on debt with floating interest rates, they should therefore hedge against adverse interest rate movements. Alternatively, they could seek to obtain credit at a fixed rate. On the other hand, it is more difficult for firms to protect themselves against sudden reductions in prices or in demand abroad. Just as the economy as a whole, they should try to diversify the range of products and the partner countries for exports and imports. In this respect, most countries of Latin America and the Caribbean have already achieved great progress and have reached considerable degrees of diversification. Nevertheless, most of their exports are still primary products which often show correlated movements in price and demand as they strongly depends on the world economy.

“ *One crucial point for the economies of Latin America and the Caribbean is the need to stabilize fiscal revenues and expenditures.* ”

5. Other Policy Areas

Financial crises often occurred in times of excessive fiscal deficits. Even though this has, above all, been the case for the classic balance of payments crisis, the design of fiscal policy still plays an important role for the credibility of a country and for its ability to counteract adverse developments. Policies should be both predictable and flexible and avoid unexpected policy changes. One crucial point for the economies of Latin America and the Caribbean is the need to stabilize fiscal revenues and expenditures. Especially those countries whose budget relies heavily on trade-related earnings should conceive mechanisms to sterilize excessive fluctuations. Stabilization funds and financial instruments should be used to guarantee a constant flow of income for the government throughout times of boom and bust. These should be calculated cautiously, because it is desirable for a country to retain some capacities for countercyclical policies. In the long run, governments should try to establish alternative sources of income, especially through taxes with countercyclical properties.

A policy of detailed and timely dissemination of information about macroeconomic indicators and policy strategies constitutes a second important area. It can serve two purposes. Firstly, it demonstrates a country's commitment to sound economic policies and therefore increases investors' confidence. Secondly, it reduces the risk of contagion stemming from information asymmetries.

II. Reducing Financial Volatility at the Regional Level

"Regional institutions can contribute in a positive way to the efforts made at the national level, because they increase both the economic and political weight involved."

Apart from the domestic policies that can help to reduce a country's vulnerability to financial crisis, the recent discussion has also included measures on an international level. Given the negative impact of financial crises on regions as a whole, efforts have been made to conceive mechanisms that increase the stability of a region and that guarantee mutual assistance in the case of a potential crisis. The proposals presented for Latin America and the Caribbean range from voluntary policy coordination to outright monetary union. This latter suggestion has received particular attention because of the region's recent dynamic process of commercial integration and Europe's adoption of a common currency.

In this context, it has to be differentiated between regional and subregional schemes of integration in Latin America and the Caribbean. In the past, the most successful efforts to achieve closer economic links were made on a subregional level. However, for Latin America and the Caribbean there are currently no initiatives that point towards an integration of the whole region. More likely, the existing subregional schemes could seek closer links between each other, but presently there are no convincing initiatives. On the hemispheric level, the issue of a Free Trade Area for the Americas (FTAA) has not yet gained strong momentum, but given the current global tendency towards economic blocks, it could evolve into a serious alternative to the subregional schemes. This would obviously have an enormous impact on considerations about monetary arrangements and would provide powerful arguments in favor of the region's dollarization.

As the issue of credibility plays a major role in the unfolding of a financial crisis, regional institutions can contribute in a positive way to the efforts made at the national level, because they increase both the economic and political weight involved. Countries can cooperate on the issues of macroeconomic stabilization, transparency, regulation and supervision of the financial sector and bankruptcy procedures. They can share experiences and know-how, stabilize processes of national reform, equalize standards and encourage investors' confidence in the region.

Another possibility of cooperation is the coordination or merger of financial markets that would allow the deepening of these institutions. It could produce economies of scale and facilitate the adoption of adequate standards and modern technology. Therefore, the reforms of the financial markets that were described as necessary on the national level, might be implemented more easily and more efficiently in a subregion with joint financial systems.

The establishment of monetary funds on the regional level has also bean suggested in order to join forces and deter speculation and contagion more effectively. On the one hand, these institutions could be more flexible than the present international lending facilities and cater towards the particular circumstances of a region. On the other hand, they could endanger the establishment of common practices throughout the world and create undesired distortions. Due to the global nature of capital flows, these should ideally be regulated on a global level. Additionally, a global institution has more political and economic weight in negotiations during crises and can therefore also exert a certain degree of pressure on creditors. At least for the regions of Africa and Latin America and the Caribbean, there would also be a the problem of sufficient funding. Both would presently not be able to raise the resources necessary to establish an influential and effective organization.

Nevertheless, a system of regional cooperation on financial issues could strengthen the position of Latin America and the Caribbean in international organizations. The outcome of the current discussion about an international financial architecture will determine the institutional structure of financial relations for years to come. It is therefore vital for the countries of Latin America and the Caribbean to identify a common position and proposals for a global financial regime and to promote them at international fora.

III. Reducing Financial Volatility at the Global Level

As the high volatility of financial markets is the result of both the liberalization of financial markets and an increase in the amount and velocity of global capital flows, measures to reduce the negative impact of these flows should not only be taken at a national or regional level, but should also include the international financial structures. Considering the dimension of financial flows and their fluctuations, new mechanisms of international cooperation and consultation are an absolute necessity. Since the disruptive effects of short-term capital flows can be interpreted as market failures stemming information asymmetries or moral hazard problems, they have to be internalized. This does certainly not relieve countries from their responsibility to enact prudent and sustainable domestic policies, but international arrangements and national policies can reinforce each other in their stabilizing effects.

The countries of Latin America and the Caribbean have a particular interest in the redesign of the financial architecture for a number of reasons. First of all, as emerging markets they have been strongly affected by the financial crises and contagion. Furthermore, some of the national strategies to reduce the vulnerability to financial crisis, such as high international reserves, hedging mechanisms or controls on short-term capital, imply economic costs. International arrangements that reduce the volatility on a global scale would reduce these costs, especially for those that are most vulnerable to crisis.

1. International Standards, Supervision and Regulation

There is an ample range of areas where international standards would contribute to the stabilization of world financial flows, concerning both the private and the public sector. Apart from regulations for financial institutions, they could relate to accounting standards and the dissemination of data by public entities and private enterprises, codes of fiscal practice and bankruptcy regulations. Finally, they could set rules for the collective representation of creditors which could be included in bonds and other financial contracts. This would counteract the fragmentation of financial markets that has made negotiations virtually impossible in times of a crisis.

These standards only represent suggestions which countries subscribe to voluntarily, but countries will have an interest to adhere to the rules, because this will facilitate their access to international capital and reduce their borrowing costs. Additionally, international organizations might make the conditions of contingency credit lines dependent on the implementation of certain principles of regulation, supervision and transparency. For industrial countries, on the other hand, the compliance is more difficult to enforce .

Another controversial issue is the role and the regulation attributed to private rating agencies. As described earlier, these have achieved a major importance for international capital markets. Accordingly, they have been blamed for exacerbating market movements, intensifying herding behavior and pursuing individual interests colliding with the common welfare. Demands have been put forward to regulate the activities of agencies and to determine the parameters for their sovereign risk rating. While a high degree of transparency in their functioning is desirable, their complete regulation does not seem appropriate. It would also be less needed, if governments and international organizations implemented the mentioned standards of public accounting and information disclosure. In this case, they would form some kind of an independent official risk agency that reduces the information asymmetries in financial markets.

2. Crisis Management

Even if measures on the national and international level can reduce the incidence of financial crises, these are likely to recur in the future. It is therefore desirable to establish a framework that guides the procedures once a country faces a shortage of liquidity. It should aim at preventing panic reactions on the financial markets that aggravate the crisis and at establishing rules for consultations between lenders and debtors. If these proceedings are clear and accepted by all actors before the crisis, it can be expected that the consequences of disturbances will be less harmful to the economy.

In effect, international provisions would have to resemble bankruptcy procedures in national economies and allow for an orderly and coordinated workout of debt. In the extreme case of insolvency, countries would be permitted to suspend payments, a mechanism which would help to reduce the moral hazard problem, because private investors would have to take some burden of crisis.

There are two major issues to consider in this context. Firstly, the danger of abuse has to be reduced. This risk does not appear to be very high, however, because a country that has applied the standstill provisions will be locked out from the international capital markets for some time and only get renewed access at extremely high costs. Additionally, an international organization could serve as a bankruptcy court and authorize countries to halt payments. The second issue is somewhat more delicate. If investors are conscious of a potential bankruptcy transferring losses to them, they will try to anticipate this event. Consequently, the likelihood of massive capital flight and a self-fulfilling crisis would be even higher in times of a temporal shortage of liquidity. Contingency credit lines like those discussed earlier in this chapter could significantly reduce this risk.

In order to facilitate the negotiations in times of crises, securities could bear clauses on the collective representation of creditors. These would ensure that the problem of collective action is overcome and a solution can be engineered that minimizes the disruptive effects of a crisis. These provisions would be an integral part of the workout procedures in the case of a country's insolvency, but could already come into effect in times of illiquidity. In fact, they could help to avoid panic behavior during temporal difficulties.

3. Integrating the Private Sector

Throughout this section, the necessity has been stressed to reduce the problem of moral hazard and information asymmetry in the international financial markets. On the one hand, the mechanisms of risk assessment and management by private actors must be improved and monitored. On the other hand, it has to be ensured that a part of the burden of financial crises is born by investors. If these conditions for an efficient working of the market are met, the evolution of speculative bubbles becomes less likely, and consequently, financial crises will become less frequent and less severe.

Apart from the policy options discussed earlier, it is important to note that in the modern financial system a coordination between the private and public sector is desirable and necessary. Even though international financial markets exhibit many characteristics that justify an intervention in order to achieve economic efficiency, this involvement should be carried out in accordance with the private actors. The more the two spheres cooperate and agree on regulations for international capital transactions, the higher the probability that crises can be prevented and resolved without major disruptions.

IV. Conclusions

The preceding sections have demonstrated that there is a wide range of policy options available to diminish a country's vulnerability to financial crisis. Many of these are medium-term strategies that can only be implemented through a complex political process, but can nevertheless serve as guidelines for policy planning. Those proposals that relate to regional or global action have to be seen in long-term perspective, because they require a common understanding of the problem and its solutions across countries. Thus, countries should first and foremost focus on domestic policies, while at the same time identifying their interests on the regional and international level. In this process, the countries of Latin America and the Caribbean should coordinate their activities in order to share ideas and results and in order to increase their weight in international consultations. Since many issues are still under discussion and there is not even a consensus between the major industrial countries, they can influence the current process in a desired direction, if they present appropriate and realistic proposals and demonstrate political willingness for their implementation.

EU-MERCOSUR Negotiations: A Few Suggestions

The countries members of the European Union and MERCOSUR have agreed to conclude an inter- regional political and economic association by not later than the year 2005. Even though negotiations to this end have suffered a number of ups and downs, during the first EU-MERCOSUR summit held in Rio de Janeiro in June 1999, the countries concerned renewed their commitment to achieving such agreement. In this article, the author suggests a number of options to assist Southern Cone countries in their negotiations with their European counterpart, particularly regarding agricultural products, a highly sensitive issue for both parties.

Algunas propuestas para las negociaciones comerciales UE-MERCOSUR

Los países de la Unión Europea y del MERCOSUR se han propuesto concluir, a más tardar en el año 2005, un acuerdo de asociación interregional política y económica, y aunque las negociaciones han tenido sus idas y sus vueltas, la voluntad del alcanzarlo fue renovada y reiterada en la primera Cumbre UE-América Latina y el Caribe realizada en junio de 1999 en la ciudad brasileña de Río de Janeiro. En el siguiente artículo la autora hace algunas sugerencias a los países sureños para orientar sus estrategias de negociación con los europeos y así obtener los mayores beneficios posibles, en especial en lo relativo a los productos agrícolas, tema altamente sensible para ambas partes.

Quelques propositions pour les négociations commerciales UE-MERCOSUR

Les pays de l'Union européenne et du MERCOSUR se sont proposés de signer un accord d'association inter-régionale politique et économique en l'an 2005 au plus tard, et bien que le processus de négociations ait connu des hauts et des bas, cette volonté a été réaffirmée et réitérée au premier sommet UE - Amérique latine et Caraïbes tenu à Rio de Janeiro (Brésil) en juin 1999. Dans l'article qui suit, l'auteur émet à l'intention des pays du sud quelques suggestions destinées à les aider à orienter leurs stratégies de négociation avec l'Europe et à en tirer le plus possible de bénéfices, en particulier en matière de produits agricoles, une question extrêmement délicate pour les deux parties.

Algumas propostas para as negociações comerciais UE-MERCOSUL

Os países da União Européia e do MERCOSUL decidiram concluir, no mais tardar para o ano 2005, um acordo de associação inter-regional política e econômica, e embora as negociações tenham tido seus altos e baixos, a intenção de atingi-lo foi renovada e reiterada na Primeira Reunião de Cúpula UE-América Latina e Caribe realizada em junho de 1999 no Rio de Janeiro. No seguinte artigo a autora faz algumas sugestões aos países do sul voltadas a orientar suas estratégias de negociação com os europeus, a fim de obter os melhores resultados possíveis, especialmente no que se refere aos produtos agrícolas, tema altamente sensível para ambas as partes.

EU-MERCOSUR Negotiations: A Few Suggestions

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Introduction

The European Union´s international relations system is based on the documents that established the former European Economic Community (EEC). Already the Coal and Steel European Community (CSEC), a forerunner of the former CEE, mentioned the need to contribute to the development of Africa. This reveals the importance of trade as the backbone of both, the current European Union (EU) and its relations with third countries.

The European Union´s external relations have been evolving parallel to the process of strengthening European integration itself. This is clearly demonstrated by the unfolding of events ever since the entering into force of the Union or Maastrich Treaty on 1/1/1993. That Treaty represented a very important milestone in the consolidation and strengthening of the process of European integration not only because it embodied the political will to strive for monetary unit, but also because it expanded the areas for coordination beyond the economic and trade field. In fact, because of the incorporation of the so-called new pillars of the EU – the Common Foreign Policy and Security (CFPS) and Citizens and Justice Affairs– it became more appropriate, from a legal point of view, to speak of the EU rather than of the CEE.

In spite of this expansion of the EU agenda, trade policy continues to be the backbone of the organization since all the new areas include issues of mixed competence, which means that the Commission may not negotiate them 100% but must rather seek a consensus among member states.

The stage that followed the entering into force of the Maastrich agreements reveals a new dynamism and scope in the EU´s foreign relations which goes beyond mere trade matters, particularly in regard to relations with developing countries. This could be a result of the CFPS, as is clearly demonstrated by the text of the declarations of principles included in the diverse trade agreements the European Union has signed with this type of countries. Issues such as peacekeeping, the strengthening of the common security, development and the consolidation of democracy and the struggle against drug trafficking, money laundering and related crimes appear to be a recurrent staple and even a precondition for stronger relations with developing countries. The requirement of a democratic clause in any cooperation agreement also reflects this change in orientation.

Some of the declarations of principles issued during the Europe- Latin America and the Caribbean Summit that took place in Rio de Janeiro in June 1999 are an example of this new tendency. The issues examined at that summit included security, a rejection of unilateralism – the EU has been disputing heatedly with the USA on this issue because of the trade damages it has suffered due to the Helms-Burton Law on the US trade embargo against Cuba – the environment, human rights and the consolidation of democracy, political dialogue between parliaments and the strengthening of the dialogue between the Group of Rio and the EU on international security and the promotion of confidence between states.

This agenda represents a step further in the consolidation of this new European tendency. It is based on the political dialogue and cooperation agenda developed by the EU together with some Latin American countries at the VII EU-Group of Rio Ministerial Meeting held in Noordwijk, on April 7 and 8, 1997 and the VIII EU-Group of Rio Meeting of Ministers of Foreign Relations held in Panama in February, 1998.

It should also be pointed out that this agenda notoriously omitted any reference to the EU´s expressed commitment to examine the causes of its trade deficit with Latin America as a way of supporting and strengthening the principles of open regionalism and multilateralism. We could attribute this gap between the EU´s promise and actual developments to the incompatibility that exists between the export structure of several Latin American countries (mainly Argentina and Uruguay) and the EU´s progressive tariff structure for products included in Chapters 1 to 24, which is aimed at preserving the Common Agricultural Policy (CAP). Moreover, the March 1999 summit of the EU Council of Agriculture's failure to accept the reforms to the CAP proposed by the European Commission as part of its program to reform the 2000 Agenda, explains the reasons why in a trade liberalization negotiation with MERCOSUR the EU can offer only few trade concessions, as well as this mention and defense of the CAP´s non trade principles.

I. Characteristics of EU Relations with Latin America and the Caribbean

When Spain and Portugal joined the European Union in the 1980´s its relations with our region changed. The priority of this issue in the European agenda improved in absolute more than in relative terms. In strategic term vis á vis other regions the change was less noticeable. In fact, presently the EU grants greater priority to the annexation into the Union of some Eastern European countries, followed by the Mediterranean, Maghreb countries and, finally by countries members of the Lomé Convention (Europe's former colonies in Asia, the Pacific and the Caribbean). Latin America is at the bottom of this list. In spite of our region's lesser relevance in relative terms, the then 12 EU countries (today they are 15) adopted some medium term measures of symbolic relevance. These were meant primarily to renew the EU´s links with our region and to demonstrate its support for the democratization processes that were taking place almost simultaneously in most of the countries of the region.

In the restructuring of its relations with Latin America and the Caribbean the European Union intensified its institutional links with the region establishing a set of priorities in which groups of countries or individual countries were rated as such:

- Southern Cone: MERCOSUR and Chile.
- Mexico: In 1996 the EU signed with this country a cooperation agreement similar to that it underwrote with MERCOSUR in 1995 and with Chile in 1996.
- Andean Community: Relations with this group of countries date back to the 1970´s. The EU´s involvement with the AC aims at contributing to a greater diversification of these countries´exports to the EU as a way to support their struggle against drug trafficking. This support has led to additional tariff preferences within the so-called drugs GSP.
- The San José Process (1984): This encompasses the Central American countries (El Salvador, Guatemala, Honduras and Nicaragua) that lived through a guerrilla process. The EU developed a specific channel for dialogue in order to support those countries´democratization and peace process as a precondition to fostering integration at several inter-regional levels.
- The Caribbean: Even though Caribbean countries are included in The Lomé Convention, the EU´s main interest is focused on CARICOM.

Besides establishing its priorities in Latin America and the Caribbean, the EU chose the Group of Rio as its political interlocutor, since it encompasses the greater number of Latin American countries. Thus, on December 20,1990, in the Rome Declaration, the EU institutionalized the political dialogue it had been developing with the Group of Rio since 1987. It established a type of consultation and coordination mechanism between both regions to examine issues of common interest. The bi-regional nature of this arrangement does not preclude the consideration of multilateral issues, as it occurred during the Rio Summit of June 1999.

II. EU-MERCOSUR Relations

EU-MERCOSUR relations began with the signing in 1992 of an Inter Institutional Cooperation Agreement. This was followed, on December 22,1994, by the Solemn Joint Declaration that set the basis for the strategy to be followed to strengthen relations between both regions. The Declaration also mentioned both parties´interest in establishing, no later than the year 2005, an Inter Regional Political and Economic Association, compatible with the WTO, which would include mutual trade liberalization, making allowances for some sensitive products. This objective was reaffirmed in the Inter Regional Framework Cooperation Agreement (IFCA) signed on December 15,1995 by the EU and MERCOSUR which institutionalized deeper cooperation, besides promoting investments.

As the first agreement between two customs unions that covers economic and trade cooperation and establishes as well prerequisites for the progressive and mutual liberalization of trade flows between both regions, the IFCA represents a historical landmark.

This qualitative change in the nature of the cooperation agreement was made possible by the entering into force, in December 1994, of the Ouro Preto Protocol, additional to the Asuncion Treaty, which granted MERCOSUR legal status to sign agreements with third countries. Thus, the IFCA was the first agreement of this type signed by the EU with another customs union.

The EU did not choose by chance the date for the signing of the Inter Regional Association Agreement with MERCOSUR. On the contrary, it would seem that by negotiating with MERCOSUR, Chile and Mexico (to sign cooperation agreements as a first step towards greater trade liberalization and, eventually, a free trade area) at the same time the Free Trade Agreement of the Americas (FTAA) is being developed, the EU is attempting to compete with the USA in its traditional area of influence.

As a matter of fact, if we analyze the simultaneous nature of the FTAA process and the impetus Europe has injected in its relations with its areas of interest in Latin America, as well as some of the issues included in the ministerial meetings of the EU-Latin America and the Caribbean Summits in relation to the non trade issues discussed within the FTAA[1], the motive for Europe's interest in our region becomes more than obvious.

III. Current Status of EU-MERCOSUR Negotiations

Ever since the April 1998 IV Meeting of the Trade Sub Commission in charge of laying the ground work for the negotiations to establish an Inter Regional Association between both blocs, the EU and MERCOSUR have not met again at the technical level. Both have dedicated themselves to obtaining precise directives as to how to proceed in the negotiations and what activities to develop.

In the case of the EU, the Commission postponed all possible negotiations until approval by the Council of the mandate it granted it in July 1998[2]. For its part, MERCOSUR awaited the approval of that mandate in order to draw the guidelines for action that would be based upon it. MERCOSUR´s increased caution in adopting a mandate for negotiations is due to the EU´s growing reticence to grant the issue of agriculture the same relevance it grants to negotiations on goods and services.

As a point of fact, even though the European Council approved –"ad referendum" by France– the Mandate for Negotiations Project originally proposed by the Commission, it also introduced some minor modifications to it to allowed its acceptance by that country before the Rio Europe-Latin American Summit. France's resistance to the mandate project stemmed from the fact that it viewed it as a threat to the CAP[3] due to the high number of sensitive products included in MERCOSUR´s exports to the EU.

This is an arguable position, since only 10% of the 52% agricultural and animal products MERCOSUR exports to the EU are sensitive goods. Similarly, those European countries which objected to negotiations with MERCOSUR because of the possible effect of the free trade area on the CAP, argued that the mandate, in its original phrasing, could cause great expenses to the EU (between 5 and 15 million ECU's) in price compensations to European agricultural producers.

Another group of countries wanted to subordinate the approval of this mandate to the definition of other issues within the EU which could affect the impact of a MERCOSUR-EU free trade area, such as: 1) the budget reform (which could lead in the future to a deeper reform of the CAP); 2) the reform of the CAP (to preserve the protection level that remained following the failure of the modifications introduced within the framework of the Agenda 2000); 3) the commitments the EU will have to enter upon during the next WTO millenium round on the issue of agricultural trade liberalization[4]; and 4) the expansion of the EU following the incorporation of the former Eastern European countries beginning in the year 2000.[5]

In spite of this back and forth regarding the approval of the European mandate, a fact which harbingers the difficulty of future negotiations, the agreement reached at the MERCOSUR, Chile and EU meeting of heads of state and government, which took place parallel to the Rio Summit and was included in the Joint Declaration, regarding the adoption of the "single undertaking" principle in the free trade area negotiations represents a positive step.

Even though this negotiating principle –which was adopted during the FTAA negotiations– somewhat guarantees balanced results (as it rules that nothing has been negotiated until everything has been negotiated) its power should not be overestimated. In fact, two circumstances could limit that principle: 1) if the final objective of the free trade area is not defined without excluding any sector, and 2) if the EU decides to postpone negotiations to a later date, possibly the year 2003, when the Millenium Round is due to conclude. It should be pointed out that, unofficially, the EU has hinted that it prefers to begin negotiating non-tariff issues, leaving the issue of agriculture for a later round.

The European position reflects that organization's reluctance to consider the issue of agriculture before the Millenium Round since the Most Favored Nation clause would oblige it to extend to the other WTO member countries the concessions it grants MERCOSUR. Such development would threaten the safeguarding of the agricultural sector imposed within the EU at the Berlin Summit in March 1999, when the reform of the Agenda 2000 and particularly of the CAP, did not prosper.

Hence, MERCOSUR will need to pay close attention to how the EU will present the issue of agriculture during the Millenium Round since that, together with the failure of the CAP reform at the Berlin Summit, will set the tone for the negotiations with the EU. Given the complicated context of EU-MERCOSUR negotiations, the "single undertaking" principle may provide, in the short term, the only way of forcing the EU to honor its commitment (expressed in the articles, declarations of principle and objectives of the Inter Regional Cooperation Framework Agreement, as well as in the Rio Declaration) to deepen relations so as to increase and diversify trade between the two blocs.

It should be pointed out that even though the Rio Declaration was a joint declaration this does not mean that MERCOSUR accepted the EU´s insistent suggestion that it negotiate jointly with Chile. In principle, this has been systematically rejected by MERCOSUR, which has argued that negotiations with the EU must be kept separate for the following reasons:

- As a customs union, MERCOSUR countries share common trade rules and disciplines, as well as quality, technical and sanitary standards, which not necessarily coincide with those of Chile. Moreover, negotiations with Chile are limited to a free trade area (to be completed within 10 years at the most, starting from October 1996, the year the MERCOSUR-Chile free trade area entered into force). Thus, MERCOSUR may not negotiate jointly with Chile vis-à-vis the EU.
- There are some contradictory economic interests between, for example, Chile's agricultural sector and that of some MERCOSUR countries, particularly Argentina and Uruguay.
- The possible structure of sensitive products between Chile and MERCOSUR may be very different due to Chile's much more open economic policy.

IV. Conclusions

In its negotiations with the European Union MERCOSUR must insist from the very beginning that all issues that will be incorporated in the eventual inter regional agreement be discussed. It must also make sure, as a "sine qua non" condition, that the future agreement is WTO compatible and that the EU does not exclude agricultural products from the trade liberalization negotiations nor subordinate them to offers made within the framework of the Millenium Round.

It should be MERCOSUR´s strategic interest during the negotiations to reverse the high deficit it has been registering since 1994 in its commerce with the UE.[6]

Only a better and greater access by MERCOSUR to the EU agricultural market, one that reflects the natural economic complementarity that exists between both blocs (a complementarity that is currently distorted by the EU´s fierce defense of the

CAP) would allow it to obtain qualitative and quantitative benefits (increase the aggregate value and further diversify its export structure).

Regarding non tariff negotiations, it should be pointed out that they do not pose great difficulties for MERCOSUR since the EU itself has acknowledged the relative similarity between both blocs trade rules and disciplines. Nevertheless, MERCOSUR would do well to monitor the agenda for these negotiations since it is the EU´s intention to begin the non-tariff negotiations by considering some trade rules and disciplines that are not contemplated by MERCOSUR.

In fact, the EU has shown a clear interest in negotiating some trade related intellectual property issues regarding which MERCOSUR has not developed as yet a common policy. Thus, as the negotiations are between blocs, MERCOSUR should not accept an agenda that violates the agreed upon methodology. Similarly, in order to obtain some short term benefit, MERCOSUR should negotiate by stages, beginning with non tariff issues; insist that those rules and regulations that restrict the most MERCOSUR's access to the EU market (basically sanitary and phyto sanitary and technical norms) and regarding which MERCOSUR has developed common regulations, be discussed first. This type of approach would insure the effectiveness of the trade concessions that may be obtained.

To summarize, MERCOSUR's main negotiating tool is to insist that no negotiation on the free trade area is possible that excludes agriculture since it would be incompatible with WTO rules and would violate one of the principles included in the Inter Regional Cooperation Framework Agreement. The other element of pressure MERCOSUR could resort to, the offer to liberalize services –in a sort of trade off– entails a number of complications within the bloc[7] given Brazil's refusal to consider opening this sector to the extent expected by the European Union.

Notes

1. As already mentioned, the FTAA includes declarations and meetings on the fight against drug trafficking, money laundering and related crimes, among others.

2. Even though the Commission may initiate and carry out negotiations on those issues that are 100% of its competence, such as trade policy, it must request a mandate or frame of reference from the Council since the issue to be included in the FTA negotiations will cover areas of so-called mixed competence.

3. It should be noted that the CAP absorbs 50% of the EU´s budget, while it generates only 2,4% of Europe's GDP and employs only 6% of the economically active population.

4. It should be recalled that the agriculture agreement negotiated within the Uruguay Round stipulated that 5 years after its entering into force the commitment entered upon in the agreement regarding agricultural liberalization should be strengthened.

5. On March 30,1998 eleven countries, Cyprus and the former Eastern European countries, began the process to enter the EU. Negotiations are being carried out in two stages. The first stage will consider Cyprus and the first five EUC (Poland, Hungary, The Check Republic, Estonia and Slovenia), the remaining countries, Slovakia, Rumania, Bulgaria, Lithuania and Latvia, will be considered once they have made progress in the reforms they must carry out.

6. In fact, the evolution of trade between both blocs during the years 1990-1996 indicates that EU exports to MERCOSUR increased much more than MERCOSUR exports to the EU (250% for the EU and 9% for MERCOSUR). On the one hand, this indicates that MERCOSUR´s exports face a very regulated market and, on the other, that the current trade unbalance and asymmetry between both blocs´trade structure threatens the very reasons for trade since were the natural economic complementarity that exists between both blocs allowed to develop, MERCOSUR would prosper and thus be in a better position to continue to acquire capital goods from the EU, its main trade partner outside the region.

7. In December 1997, the EU Council adopted through Decision 13/97 the so-called Montevideo Protocol on Trade in Services, which is basically a commitment to liberalize that sector. However, no progress has been made on which sectors should be liberalized.

Regional Trade Agreements and Macroeconomic Performance
This article examines the relationship that exists between regional agreements and macroeconomic performance. It is divided into four sections. The first section analyzes intra-regional trade flows between several Latin American trade blocs. The second section examines the relationship between trade blocs and real foreign exchange rates. The third discusses the factors that determine real foreign exchange rates. Finally, the fourth section focuses on the detection of potential unbalances in the external sector and, to this end, discusses the results of calculations on the imports and exports elasticities of Latin American countries during the period 1950-1997.

Acuerdos comerciales regionales y desempeño macroeconómico
Este artículo examina la relación entre los acuerdos regionales y el desempeño macroeconómico. Se divide en cuatro apartados. El primero examina los flujos comerciales intrarregionales de distintos bloques comerciales en América Latina. El segundo analiza la relación entre flujos comerciales y tipo de cambio real. El tercer apartado se centra en la determinación del tipo de cambio real. Finalmente, con el fin de mostrar desequilibrios potenciales en el sector externo, el cuarto apartado muestra resultados de los cálculos de la razón entre las elasticidades de importación y exportación para los países latinoamericanos durante 1950-1997.

Accords commerciaux régionaux et performance macro-économique
Cet article étudie le rapport entre les accords régionaux et la performance macro-économique. Il comporte quatre parties. La première est consacrée aux flux d'échanges intrarégionaux de différents blocs commerciaux d'Amérique latine. La seconde analyse le rapport entre flux commerciaux et taux de change effectif. La troisième est axée sur la définition du taux de change effectif; et la quatrième montre les résultats des calculs du taux d'élasticité des importations et exportations des pays latino-américains au cours de la période 1950-1997.

Acordos comerciais regionais e desempenho macroeconômico
Este artigo examina a relação entre os acordos regionais e o desempenho macroeconômico. Divide-se em quatro itens: o primeiro examina os fluxos comerciais intraregionais dos diversos blocos comerciais na América Latina; o segundo, a relação entre fluxos comerciais e tipo de câmbio real; o terceiro está baseado na determinação do tipo de câmbio real e, finalmente, com o fim de mostrar desequilíbrio potencial no setor externo, o quarto item mostra resultados dos cálculos da razão entre as elasticidades de importação e exportação para os países latino-americanos durante 1950-1997.

Regional Trade Agreements and Macroeconomic Performance

CURRENT ISSUES

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Regional agreements are not independent of the macro economic context in which they unfold. Variables such as, in particular, variations in the real exchange rate, alter and distort the composition and direction of trade flows. Such effects may undermine the commitments and the solidarity underpinning regional trade agreements.

Real exchange rates may change due to specific events or to structural or institutional variables. These variables affect, somewhat, the difference between the income elasticity of imports and exports. Throughout periods of time, some Latin American countries have registered higher elasticities for imports than exports. This reflects an unbalance that could alter real exchange rates and, thus, trade flows within regional agreements. This is why regional agreements must include amongst their principles clauses that may lessen the impact of this type of fluctuations.

1. Intra Regional Trade Flows

Tables 1 to 5 show intra regional trade flows for some selected regional Latin American blocs. Intra regional trade is measured by the average participation of intra regional exports in total exports for the period 1990-1998. The trade blocs herewith analyzed are: the North American Free Trade Agreement (NAFTA), the Central American Common Market (CACM), the Andean Community (AC) and the Group of Three (G-3).

On average, with the exception of the NAFTA, intra regional trade as a percentage of total trade is not very significant. For the CACM, MERCOSUR, the AC and the G-3, 16%, 34%, 11% and 5%, respectively, of their total trade is intra regional. On the other hand, 62% of NAFTA´s total trade is within the region.

Two things can be observed within regional blocs. On the one hand, bilateral relations are also, in general, of little trade relevance. On the other, some bilateral relations are of major importance and, to some extent, underpin and grant trade significance to regional agreements. These types of bilateral relations exist between larger countries (Argentina-Brazil), small countries (El Salvador-Guatemala) and large and small countries (Brazil-Uruguay or Brazil-Paraguay).

Table 1
Intra Regional Trade Within NAFTA
1990-1998. Averages

	Canada	United States	Mexico	Total
Canada	---	**81.27**	0.41	81.68
United States	**21.68**	---	9.18	30.86
Mexico	1.95	**70.97**	---	72.92

Source: MAGIC (1999) and DOTS (1990-1999).

Table 2
Intra Regional Trade Within the CACM
1990-1998. Averages

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
Costa Rica	---	2.41	2.05	1.02	3.22	8.70
El Salvador	7.36	---	**15.31**	4.30	3.54	30.51
Guatemala	4.94	**11.46**	---	5.36	3.16	24.92
Honduras	0.59	1.20	2.37	---	0.71	4.87
Nicaragua	3.60	6.47	1.61	1.55	---	13.23

Source: DOTS (1990-1999).

In the case of MERCOSUR, 24% of Argentina's exports are to Brazil, while 34% and 31% respectively of Paraguay and Uruguay's total exports are to that country. Within the CACM, 15% of El Salvador's exports are to Guatemala and 11% of Guatemala's exports are to El Salvador. Within the NAFTA, the USA absorbs 81% and 71% of Canada´s and Mexico's exports.

Table 3
Intra Regional Trade Within MERCOSUR
1990-1998. Averages

	Argentina	Brazil	Paraguay	Uruguay	Total
Argentina	---	**24.32**	1.67	3.01	29.0
Brazil	9.7	---	2.39	1.6	13.69
Paraguay	**11.3**	**34.29**	---	1.85	47.44
Uruguay	**12.68**	**31.14**	1.48	---	45.30

Source: DOTS (1990-1999).

Table 4
Intra Regional Trade Within the Andean Community
1990-1998. Averages

	Bolivia	Colombia	Ecuador	Peru	Venezuela	Total
Bolivia	---	5.76	0.5	**10.90**	0.27	17.43
Colombia	0.24	---	3.43	3.28	7.47	14.42
Ecuador	0.08	5.01	---	2.6	0.57	8.26
Peru	1.55	2.47	1.33	---	2.24	7.59
Venezuela	0.05	5.28	0.87	1.28	---	7.48

Fuente: DOTS (1990-1999)

Table 5
Intra Regional Trade Within the G-3
1990-1998. Averages

	Colombia	Mexico	Venezuela	Total
Colombia	--	0.93	7.47	8.4
Mexico	0.48	---	0.51	0.99
Venezuela	5.28	0.90	---	6.18

Source: DOTS (1990-1999).

While these bilateral relations are, to some extent, the foundation of regional trade agreements, they are also a reflection of the asymmetries that exist within such agreements. Such unbalances become apparent once the macro economic context, which originated and sustained such agreements throughout time suffers unforeseen changes.

For example, a change in the economic policy of countries that are the backbone of a trade agreement may significantly affect other trade partners. In such cases the existing unbalances cease to underpin regional agreements to become the nucleus of their fragility.

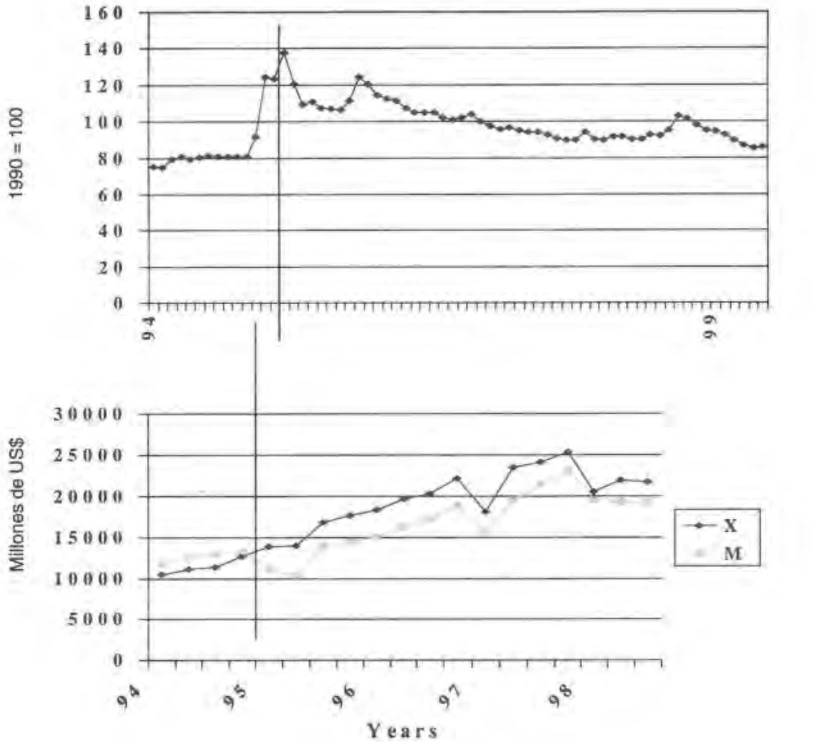
Variations in real exchange rates resulting from external shocks or economic policy decisions may alter the direction of trade flows and countries´external situation. Variations in real exchange rates reveal that at as far as their trade policy and commitments are concerned, regional agreements are not independent of macro economic performance.

2. Trade Flows and Real Exchange Rates

Tables 1 to 4 indicate the relation that exists between bilateral real exchange rates and the behavior of exports and imports for Mexico-the USA, Brazil-Argentina, Guatemala-El Salvador and Colombia-Venezuela. In each of these cases trade flows respond to fluctuations in the corresponding bilateral real exchange rate.

In the case of the USA and Mexico, the latter's devaluation of the peso in December 1994 changed its bilateral trade balance from negative to positive. In fact, ever since the first quarter of 1995, Mexico's trade balance has shown a systematic surplus (see Table 6). In the case of Argentina-Brazil, the depreciation in real terms of Argentina's currency during the first quarter of 1994 resulted in an increase in exports and a decrease in imports. As for the Colombia-Venezuela bilateral relation, the increase in the real exchange rate between both countries' currencies produced an import surge over exports, which caused a trade deficit. Finally, the stability in the real bilateral exchange rate between Guatemala and El Salvador has nurtured a relatively stable bilateral trade relation between both countries.

Chart 1: USA-Mexico
Real Bilateral Exchange Rate and Monthly Exports and Imports
1994-1999



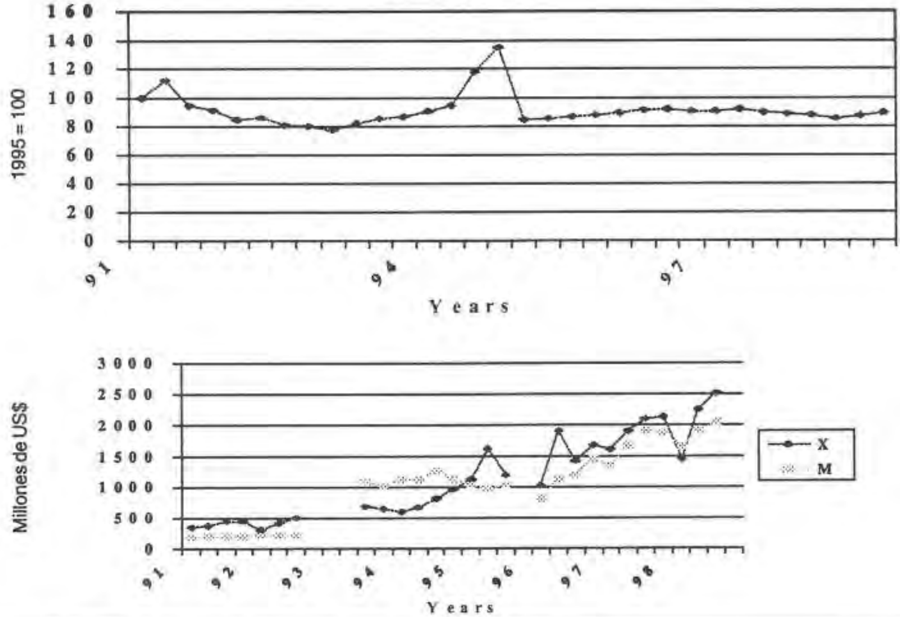
Source: Federal Reserve Bank of Dallas (1999); DOTS Yearbook, IMF (1995-1998).
Note: The vertical line represents the first quarter of the year 1995..

Table 6
USA Exports and Imports to and from Mexico, 1991-1998
$ Millions

	1991	1992	1993	1994	**1995**	**1996**	**1997**	**1998**
Exports	33.275	40.597	41.635	50.840	**45.400**	**56.760**	**71.378**	**79.010**
Imports	31.194	35.189	39.926	49.492	**61.704**	**72.968**	**85.829**	**94.708**
Balance	30.081	5.408	1.709	1.348	**-16.304**	**-16.208**	**-14.451**	**-15.698**

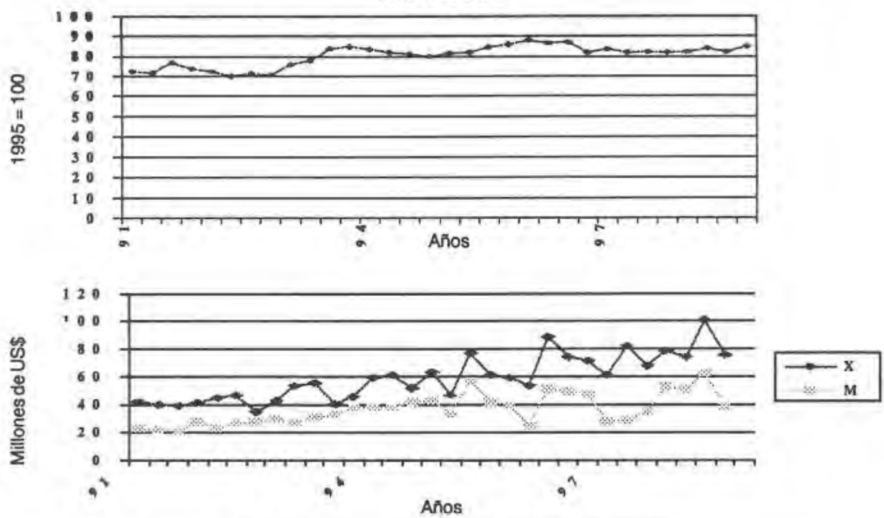
Source: DOTS (1991-1999).

Chart 2: Argentina-Brazil
Real Bilateral Exchange Rate and Quarterly Exports and Imports
1991-1998



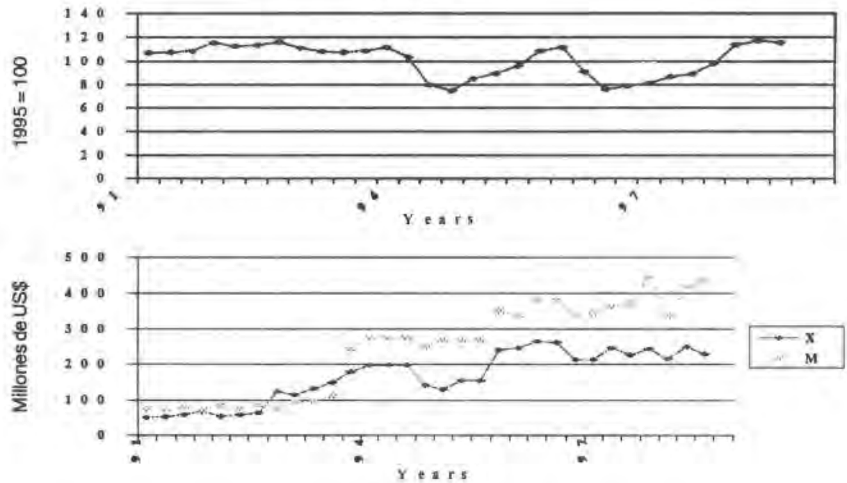
Source: ECLAC (1999); IMF (1999); DOTS, IMF (1995-1998).

Gráfico 3: Guatemala-El Salvador
Real Bilateral Exchange Rate and Quarterly Exports and Imports
1991–1998



Source: ECLAC (1999); IMF (1999); DOTS Yearbook, IMF (1995-1998).

Chart 4: Colombia-Venezuela
Real Bilateral Exchange Rate and Quarterly Exports and Imports
1991 – 1998



Source: ECLAC (1999); IMF (1999); DOTS Yearbook, IMF (1990-1998).

3. Factors that determine Real Exchange Rates

The standard definition of real exchange rate allows us to define the factors that determine it. The real exchange rate (RER) is defined as:

(i) RER = (eP*)/P

Where:
e = Nominal exchange rate
P* = external prices´level
P = internal prices´level

We can further define eP* as the price in local currency of a particular country's imports and P as the price level in local currency of the goods bought by a country's residents. Following Davidson (1992), P can be defined as the weighted average of the price of imported goods and the price of locally produced goods (Pbi). The pondering factor is the level of trade liberalization (n).

(ii) P = Pbi(1-n) + eP*(n)

By substituting the (ii) equation in the (i) equation we have that:

$$\text{(iii) } RER = eP^*/((Pbi(1-n) + eP^*(n))$$

According to (iii) the real exchange rate depends on the price in local currency of imports (eP^*), the price of local goods (Pbi) and the degree of economic liberalization (n). With a level of external prices (P^*) and a given degree of liberalization, the RER may then vary due to changes in internal prices or in the nominal exchange rate.

In the case of the regional blocs here analyzed, variations in the real exchange rate and, thus, in the direction of trade flows are, at first sight, due to temporal considerations. This is illustrated particularly by the trade relation between Argentina and Brazil during the 1990´s. Argentina's early 1990´s convertibility plan caused an important increase in the bilateral real exchange rate with Brazil, which resulted in a trade deficit for Argentina. As a consequence, in 1992 Argentina´s authorities imposed antidumping and escape clauses on a number of Brazilian products. The 1999 devaluation of Brazil´s real once again led Argentina to adopt trade measures to avoid an external unbalance that might threaten its internal economic policy.

The real exchange rate may also vary according to an economy's structural characteristics or specific institutional changes. In hard price situations, in particular, variations in the nominal exchange rate may cause variations in the real exchange rate, due to the economy's external bottleneck.

Within a trade bloc the differences that may exist between the income elasticities of imports and exports, if sustained over time, may cause permanent external unbalances for some of its trade partners. If a trade partner has an imports´income elasticity greater (lower) than the exports´income elasticity, its tendency to experience balance of payment unbalances is greater (lesser). If this situation is of a structural rather than temporal nature, or if it is the result of an institutional change, that economy could experience a chronic situation of unbalance.

4. The Relation Between Import and Export Elasticity

Table 7 shows the ratio of imports income elasticity divided by exports income elasticities. These coefficients were calculated implicitly for the periods 1950-1990 and 1990-1997. Even though a more rigorous and detailed analysis could lead to economic policy recommendations, these coefficients do give us an idea of the possible external unbalances that may be caused by structural variables or institutional changes.

A greater than one ratio implies that the imports elasticity is greater than that of exports and that, therefore, there could be a tendency towards chronic balance of payments unbalances. In the period 1950-1990, nineteen of the countries examined, with the exception of Venezuela, showed a marked tendency to trade unbalances. This is a very heterogeneous period, as it includes the imports substitution era, the later period in which such model became questioned and, for some countries, the first years of economic reforms.

Table 7
Relation Between Imports and Exports Elasticities for Latin American countries. 1950-1997

Country	Ratio Imports Income Elasticity to Exports Income Elasticity	
	1954-1990	1990-1997
Argentina	0.04	**2.31**
Bolivia	**4.34**	**1.17**
Brazil	0.27	---
Colombia	0.51	**1.40**
Costa Rica	0.97	**3.78**
Chile	0.67	0.83
Ecuador	1.00	0.77
El Salvador	0.97	0.90
Guatemala	0.49	0.49
Haití	**1.94**	---
Honduras	**1.21**	**1.72**
México	0.70	0.71
Nicaragua	**2.01**	0.91
Panamá	0.80	**1.85**
Paraguay	**1.19**	**2.03**
Perú	**1.44**	**1.70**
Dominican Republic	**2.16**	0.97
Uruguay	0.07	**1.57**
Venezuela	**1.30**	**1.31**

Based on ECLAC (1999).

The second period, 1990-1997 includes the years of economic reform and institutional change. During this period, the number of countries whose imports income elasticity is greater than the exports income elasticity goes up to ten. The small countries are no longer the ones with high coefficients. In fact, the large countries (Argentina, Colombia, Venezuela) register higher imports than exports income elasticities. Nevertheless, on average, the potential unbalance measured by such indicator for small countries with a higher than one coefficient is 2,0, while for larger countries it is 1,7.

The potential trade unbalances are apparent not only for small countries but also for the larger ones, particularly following the economic reforms of the 1990´s, which could cause instability in the real exchange rate. This, in turn, could alter the direction and composition of trade flows and threaten the solidarity and commitments supporting regional agreements. In fact, the boom created by the greater flow of goods and services can be more than offset by the distortion in the relative prices stemming from undesired variations in real exchange rates.

Thus, regional agreements must include clauses that minimize the impact of this type of fluctuations. Within this context, the viability of monetary unions could be considered, at both the theoretical and empirical level.

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Guarantees in a Global Economy: An Overview of Ibero America
This article examines the development throughout the world and in Ibero America in particular of guarantee systems as a mechanism to ease micro, small and medium sized enterprises´access to financing. SMEs, the author points out, play a dynamic role in the creation of wealth and jobs.

Las garantías en una economía globalizada: el entorno ibero-americano
En el siguiente artículo se presenta un estudio general, con énfasis en los países de Iberoamérica, del desarrollo que han alcanzado los sistemas de garantías como mecanismos válidos para facilitar el acceso a las fuentes de financiamiento de las micro, pequeñas y medianas empresas, las cuales, a su vez, se han convertido en un factor dinamizador para la generación de empleo y riqueza.

Les garanties dans une économie globalisée: le contexte ibero-américain
L'article qui suit présente une étude générale plus particulièrement axée sur les pays latino-américains, le développement des systèmes de garanties en tant que mécanismes viables pour faciliter l'accès aux sources de financement des micro, petites et moyennes entreprises qui sont devenues un facteur de dynamisation de la création d'emploi et de richesse.

As garantias duma economia globalizada: o entorno íbero-americano
No seguinte artigo se apresenta um estudo geral, com ênfase nos países íbero-americanos, do desenvolvimento alcançado pelos sistemas de garantias como mecanismos válidos para facilitar o acesso às fontes de financiamento das micro, pequenas e médias empresas, as quais, por sua vez, tem-se convertido num fator dinamizador para a geração de empregos e riqueza.

Guarantees in a Global Economy: An Overview of Ibero America

Pablo Pombo
International consultant on guarantee systems and founding member of the European Mutual Guarantee Association (EMSA)

"He who controls guarantees controls credit"

Introduction

Throughout the XX Century in some areas of the world, and particularly during the last thirty years all over the world, guarantee systems have become an essential mechanism for providing micro, small and medium scale enterprises access to financing. Therefore, it has been acknowledged that enterprises' access to financing requires a true state policy. An overview of the current situation and of the different guarantee systems throughout the world reveals that in recent years guarantee systems have expanded, becoming an integral part of the financial system of a great number of countries. Evidently, within the so-called "Basel rules or norms", guarantees are the basis for qualification of financial assets. Thus, guarantee systems created for enterprises must keep this reality in mind vis-a-vis efficiency and competitiveness.

The tendency towards an "alliance" between public administrations, financial agencies and enterprises to obtain acceptable credit flows has increased, particularly among small scale and micro enterprises. Different guarantee systems, programs, funds and plans have underpinned such alliance. The most developed guarantee systems are found in North America, South East Asia and Europe. There are three main models: the guarantee system administered by a state agency, the public corporation guarantee system and the mutual system. Other areas of the world are beginning to develop this system or to strengthen existing mechanisms, particularly guarantee programs and funds.

In Africa there are some advanced systems (molded after European models, as in Morocco and South Africa), however in the continent as such guarantee systems are a new development and the most advanced mechanisms derive from international and inter-states cooperation programs and funds. In Central Asia and the Middle East we have a similar situation, with the exception of India, which made the first step towards loan securities as far back as 1961. In Oceania all systems are very recent and, generally, there is a tendency to develop and strengthen corporate guarantee systems. In the case of Australia, to be more precise, the tendency is towards reinstating the state guarantee system for small-scale enterprises, which is currently on hold. Latin America, on the other hand, is witnessing a guarantee systems boom, following their introduction throughout the continent during the 1970's.

Compared to other continents, Europe plays a leading role in the area of guarantee systems. Moreover, the incorporation of new countries, such as the Eastern European ones, which have developed, albeit timidly, their own systems, has increased Europe's activity in this field.

Much of South East Asia's gurantees' volume is due to the level of operations in Japan, whose system is the most advanced in this regard and appears to be a highly desirable economic mechanism, including for Japan's overall economic reactivation programs. Generally, the newness or irregular situation of guarantee systems in Africa, Central Asia, the Middle East and Oceania makes it difficult to reliably compare their activities, except in the case of, for example, Morocco, South Africa or Jordan.

In the American continent, there are still great differences between the very stable and well-developed systems of the North and those of Latin America. However, some countries such as Mexico, Colombia, Argentina and Peru have given such systems a great push, as some considerable data reveals. On the other hand, during recent years we can observe a strong guarantee systems activity in Ibero American countries, a fact that harbingers great hopes for the future. Before we proceed to identify Ibero American countries´different guarantee systems and agencies, their tendencies and some data on their activities, let us pin point the main problem or reason for the existence of such systems, describe the different models or guarantee formulas and provide a brief overview of the situation at the continental and sub-continental level.

I. The Problem of Micro, Small and Medium Scale Enterprises (MSMSs)

Most of the world's securities systems are aimed at micro, small and medium scale enterprises 1. Depending on their sphere of action, such systems assist the family business, individuals or medium scale enterprises (as in South East Asia). All systems aimed at micro or small and medium scale enterprises register two important, apparently contradictory facts. On the one hand, it is more than evident that the SMEs sector is today an essential economic stratum and a development parameter of the current highly global, economic system. Its main strength lies in its creation of jobs, also a global problem. Estimated data from all continents and sub continents reveal an important fact: SMEs represent 97% of enterprises, provide approximately 64% of employment and between 30% to 50% of the GNP in a great number of countries. On the other hand, these same financial agencies and guarantee systems witness this sector's difficulty in accessing financing, due to the perception of risk that generally prevails within financial systems regarding SMEs when considering commercial loans to such enterprises. Guarantee systems are an essential weapon to deal with this well-known and documented problem, since they facilitate access to credit under optimum conditions. Insurance systems are today, as they have been in the past, a beneficial reality for financing enterprises. In a global economy their effectiveness is sustained and strengthened.

II . The Models

We have already referred to the different types of guarantee systems or mechanisms available throughout the world: the guarantee program, the guarantee fund – subdivided into mutual and corporate arrangements (in the latter case a public corporation). These programs have the following basic outline:

The guarantee program

- Has limited and provisional resources provided by the state and/or external cooperation .
- May be established at state (national agency) or inter state level.
- Delegates basic operations to financial agencies.
- Users have no relation to the program.
- Tends to guarantee the risk portfolio of entities in charge of repossessing non-performing loans.

The guarantee fund

- Has limited and provisional resources provided by the state and/or international cooperation.

- Allows financial bodies to operate the system, particularly as regards the analysis, granting and recovery of non-performing loans.
- Tends to operate by mixing portfolio guarantees with individual guarantees:
  - In the case of individual guarantees the fund establishes specific requirements for issuing the bond letter granting the guarantee. The borrower requests and pays directly for the bond letter to back his/her access to credit and, therefore, the fund intervenes when the time comes to process and evaluate the request and granting of the guarantee.
  - In the case of portfolio guarantees, the fund only describes the credit portfolio for micro and small and medium scale enterprises and underwrites the corresponding agreement with the financial agency. This receives and pays the fund's automatic guarantee on the SMEs and the fund leaves to the financial entity all financial transactions, terms and evaluation of the guaranteed loans.
  - The holder requests the loan and pays for the use of the guarantee on its loan.
  - Takes over bad loans but delegates their performance to financial agencies.

The Guarantee System

- Operates according to two models:
  - The associative-mutual-corporate model with mixed resources and individual guarantees. The holder is in trust with the agency, requests and pays directly to the reciprocal guarantee association (RSA).
  - The corporate, mixed resources model with individual guarantees. The holder enters a trust with the agency through public institutions, associations or enterprises, requests and pays to the guarantees association.
- It operates at the provincial, regional or state level.
- Requires specific legislation, classification as financial entity and must be integrated to each financial system's control and supervision.
- Carries out the work related to the analysis and granting of the loan -vis-á-vis the credit from the financial agency.
- The guarantee is personal. The holder is associated or in trust with the agency (pays directly to the RSA).
- Takes over defaults and bankruptcies and deals directly with the recovery of non-performing loans.

III. Brief Overview of Guarantee Systems in Different Continents and Sub-Continents

In the African continent the endogenous reality of guarantee systems is very limited and there is very little information available on them. Nevertheless, there appears to be a tendency to establish systems after the European model, articulated through programs and international cooperation funds (UN programs, the World Bank and countries'development and cooperation agencies).

The Moroccan and South African systems are among the oldest and more established ones in the continent. In the case of Morocco, the system is strongly monitored by the French Popular Bank's mutual guarantees associations system. It is an outstanding system with 20 Mutual Guarantees Associations (MSA) granting guarantees to around 20,000 SMEs. In the other Arab countries the system is strongly influenced by France, either through the establishment of sectoral mutual guarantee systems (as in the case of Tunisia's agricultural MSAs) or through the activity of the French Development Fund's guarantee funds. Other international and inter states cooperation programs also operate in the region (as USAID in Egypt and the Inter-Arab Investment Guarantee Corporation). Among other endogenous initiatives we should mention Egypt's corporate system, Tunisia's national guarantees fund and the large number of initiatives of this kind, supported by external programs, in Mali.

In the Sub-Saharan region, South Africa's system appears attractive but its level of activity is still low. Together with these two systems, the many international cooperation programs and funds operating in the region have given impetus to the whole guarantees system in the continent through the development of initiatives and fostering the creation of national guarantee systems. Among the major guarantee programs in the region are those coordinated by the United Nations (UNDP, FAO...), the ILO, the World Bank (through the Multilateral Investment Guarantee Agency), national development agencies (particularly USAID and France's Development Agency) and other international cooperation organizations. The above programs operate in almost all-African countries, as can be observed from the table below, together with endogenous entities and mechanisms. In most cases attempts have been made to establish some kind of guarantees system, with little results, even though the creation of state programs and arrangements in Swaziland and Nigeria offers some hope for the future.

In the Middle East and Central Asia there are some loan guarantees systems, such as the ones in India, Jordan, Israel, Lebanon or China's recently established system.[2] India's guarantees system, established at the beginning of the 1970's by its state agency (Deposit Insurance Credit Guarantee Corporation), a part of India's Reserve Bank, is among one of the more noteworthy systems in the region. China and Honk Kong established their systems in 1998. In the Middle East, the most developed systems are Jordan's corporate arrangement (Jordan Loan Guarantee Corporation) and Israel's sate guarantees fund. Both have been operating since 1994. In the case of Israel, USAID's guarantees program, renewed ever since 1992, plays a much more important role.

In South East Asia guarantees systems continue to expand and be restructured due to the recent strong economic recession. Japan's is the most active system within the region. It holds a specific weight within that country's economy, with a more than US$265,000 million exposure. It operates through the national confederation of 52 guarantees corporations (NFCGC) and the important refinancing agency Japan CIC. It grants guarantees to 2 million SMEs, 30% of Japans SMEs, receiving 30% of Japan's economy reactivation plan funds (around US$ 7 billion).

Other intensive guarantees systems within the region are those found in Korea, which has two corporate agencies, Indonesia and Malaysia. Sri Lanka, the Philippines, Thailand and Taiwan have very consolidated guarantees systems that have been operating since the 1950's. The Philippines and Hong Kong's experience is particularly interesting. Recently the first added a new fund to its long list of guarantees agencies (two non-transitional funds and two corporate arrangements), while Hong Kong established in 1998 a new special financing facility for SMEs.

On the other hand, in October 1988 the Asian Credit Supplementation Institution Confederation (ACSIC) was established. It encompasses fourteen founding members from nine countries: Indonesia's PT Ausansi Kredit and Perusahaan Umum Pengembagen Keuangan Koperasi (Perum PKK); Korea's Credit Guarantee Fund (KCGF) and Korea Technology Credit Guarantee Fund (KOTEC); Malaysia's Credit Guarantee Corporation (CGC-MB); Nepal's Credit Guarantee Corporation PVT Lted. The Philippines' Small Business Guarantee and Finance Corporation (SBGFC); Sri Lanka's Central Bank of Sri Lanka; Taiwan's S&M Business Credit Guarantee Fund (SMBCGF); Thailand's Small Industry Credit Guarantee Fund (SICGC); Japans Small

Business Credit Insurance Corporation (Japan CIC) and the National Federation of Credit Guarantee Corporation (NFCGC).

In Oceania the credit guarantees system is very recent and not very developed. However, during the 1990's several corporate guarantees systems were established in the different island nations of the Pacific, particularly in Solomon, under the auspices of UNDP's Small Enterprises Development (SED) program. In New Zealand and Australia steps have been taken to strengthen the few existing guarantees systems for SMEs. Australia's old federal Small Business Loan Guarantee Scheme is currently not operating and it is expected that it will be reactivated. Meanwhile, some initiatives have begun at the local level.

In Europe the need to create guarantees systems dates back to the 19th century. The first such systems were Brussels's Credits Union, funded in 1848 to supply credit to Belgian enterprises; France's Banque Populaire, established in 1841 and Spain's mercantile unions, of 1915. A differentiation must be made between the countries belonging to the European Union and those of Central and Eastern Europe (CEEC countries). The first have developed supra national institutions whose state policy is to promote and foster existing guarantees systems such as the Reciprocal Guarantees Societies (RGS) and the Mutual Guarantee Societies (MGS). All European Union countries that did not have a tradition regarding guarantee mechanisms have developed mutual guarantee systems (as is the case in Finland, Sweden, Ireland, Portugal and Greece). As for the United Kingdom, in 1993 it made a transition from the state model, which continues to operate, and the Mutual Guarantee Scheme model. Recently, some countries with a long tradition in guarantee systems have developed new legislation in this field (as is the case for Spain's 1994 and Belgium's 1999 new laws on the subject). France's experience continues to be the most significant. The country has a number of guarantee agencies associated to the Popular Bank (SOCAMAS) as well as other types of agencies. Italy has a very extensive network of local credit guarantees cooperatives belonging to a confederation (currently CONFIDI encompasses almost 700 agencies).

In other European countries, except Switzerland and Turkey, developments in this field are of recent date. Switzerland and Turkey have developed regional and local cooperative models. Because of its decentralized federal state model, Switzerland has had to coordinate its system cooperatives and agencies in its four cantons. Turkey's experience in the area of guarantee systems is the most relevant outside the EU. The country has developed a very large system that encompasses almost 1,000 credit and guarantee cooperatives assisting over 700,000 small enterprises, with a significant volume of activity (more than US$650 million in collateral). Moreover, Turkey has a guarantees fund for SMEs promoted by and coordinated in collaboration with German banks.

In Eastern European countries the guarantees system began to develop only during the 1990´s, following the economic liberalization and privatization process and the establishment of SMEs, in many cases under the auspices of international cooperation programs (World Bank, OECD, USAID) and with external counsel. Nevertheless, during the 1990´s Hungary, the Check Republic, Poland, Estonia and Lithuania developed a number of endogenous initiatives. In Russia there has been some activity at the regional level, however almost all guarantees schemes are supported by international cooperation and inter states guarantees programs.

The guarantees system's outlook in Europe changed significantly with the creation, in November 1992, in Paris, of the European Mutual Guarantees Association (EMGA). Germany, Austria, Belgium, Spain, France, Finland, Great Britain, Italy, Ireland and Portugal and several Eastern European countries such as Hungary, Poland, the Russian Federation, are full fledged members of EMGA. Other associations and institutions are affiliated members. In total, EMGA encompasses more than 1,900 European mutual guarantees societies servicing close to two million four hundred SMEs, that is, close to 10% of all of the European Union's small and medium scale enterprises, covering almost 40,000 million euros.

In the American continent, particularly in Latin America, there is a renewed confidence in the credit guarantees system as a tool to insert SMEs into the financial sector from which they tend to be left aside. In the American continent the guarantees system operates under the three models mentioned above: the guarantees fund, the guarantees program and the mutual guarantees system (MGS). The guarantees program is the most popular formula throughout North America (USA, Canada and Mexico). In Central America the guarantees fund is the model of choice, as El Salvador´s active fund and the existing projects for the establishment of funds in Costa Rica and the Dominican Republic demonstrate. In the past the region experienced with inter state programs that covered many Central American countries, however, today such programs have ceased to exist. In the case of South America, a number of steps have been taken recently to reactivate guarantees systems such as new legislation on the issue of Reciprocal Guarantees Societies, the introduction of regulations in other systems, the capitalization of guarantees funds or Colombia's major restructuring in 1995 which led to the creation of a national guarantees system stimulated, regulated and supported by the National Guarantees Fund (Fondo Nacional de Garantías,SA) and 12 regional funds.

In the analysis of North America's systems, we leave Mexico's out since, even though it is similar to the United States´and Canada's state programs, it does not have a centralized agency and its level of activity and operation is closer to that found in other Ibero American countries. In Canada and the USA the guarantee system operates through a public program institutionalized through development agencies functioning as administrators. In both countries such agencies play a central role in employment promotion policies, operate through financial agencies with which they have signed agreements and develop specific guarantees mechanisms tailored to economic and social sectors, areas affected by natural disasters, etc...

In Canada the Small Business Loans Act program has been operating since 1961. It was created by the Ministry of Economics and transferred to the Ministry of Industry in 1977. During the last four decades the SBLA program has expanded and it has been modified and subjected to regulations. The major modification is that it has become a federal credit guarantees institution. In the USA the establishment of guarantees systems is relatively recent, contrary to what may be expected. The federal program, operated through the Small Business Administration (SBA), was developed during the 1970's. Guarantees systems were later established at state level to promote the development of statewide industries. Today, fifteen states have their own guarantees program, among them, California's is particularly noteworthy because of its level of activity and total independence from the SBA. The SBA was established in 1953 to assist US SMEs. It is the successor of the Reconstruction Finance Corporation (RFC) which during the Great Depression granted credits to small and medium scale enterprises that could not obtain financial assistance from the banking sector. Both countries´ state guarantee programs for SMEs have assisted over 550,000 enterprises, covering a total of US$50,000 million.

IV. The Guarantees System in Ibero America

The European guarantee system, that is, Spain's and Portugal's, prevails in the Ibero American world. This is based on reciprocal guarantees societies, after the mutual guarantees European model. Spain's contribution to this network is particularly important.

1915 1978 1994	Spain	Sindicatos Mercantiles Industriales Sociedades de Garantía Recíprocas (R.D. 1978) Sociedades de Garantía Recíprocas (LEY 1994)
1994	Portugal	Sociedad Portuguesa de Garantías Mutuas (SPGM)

In Latin America we have the following national systems, programs and inter- state initiatives, together with other now defunct agencies in Mexico, Central America and the Caribbean:

1973 1992 1992	El Salvador	Fondo de Financiamiento y Garantia para la Pyme (FIGAPE) Fondo de Garantia para la Pequeña Empresa (FOGAPE) Fondo de garantia agropecuario (FOGARA) y FUSAID
1979	Barbados	Programa de garantías del Banco Central de Barbados
1983 1996 1999	Dominican R.	Reserva de garantias de créditos especiales Sistema de garantia compartida (SIGAC) Programa de SGR'S - PROMIPYME
1983	Eccb	Banco Central del Este del Caribe Export Credit Guarantee Scheme (Anguilla, Antigua y Barbuda, Dominica, Granada, Saint Lucía, Saint Vicente, Granadines...)
1985	Panama	Programa FUNDES de garantias para Latinoamérica (defunct)
1987 1996	Costa Rica	Programa Fondo de Garantia para la Pequeña Industria (FOGAPI) para Centroamérica del BCIE (defunct) Fondo Regional de Garantías (FOLADE)–Finubank–Fundes (defunct) Fondo Nacional de Garantias (FONAGA)
1987	Guatemala	FOGAPI BCIE (defunct) - Programa PROPYME-FUNDES (defunct)
1987	Honduras	FOGAPI BCIE (defunct)–Programa PROMICRO/OIT
1987 1988 1989	Mexico	Programa/Productos de Garantías Bancomext Programa de Garantías Agrario (FIRA) Programa de Garantías de Nacional Financiera (NAFIN) Fondo de Garantía y Fomento a la Pequeña y Mediana Industria (FOGAIN) (extinguido en 1984)
1987	Nicaragua	FOGAPI BCIE (defunct)
1990 1993	Trinidad & Tobago	Small Business Development Company Ltd. Loan Guarantee Plan Export Credit Insurance Co. Ltd.
1996	Alega	Asociación Latinoamericana de Entidades de Garantía (ALEGA)
1996	Haiti	Usaid-sofihdes Credit Guarantee

The following table presents the current and former national guarantees systems, programs and initiatives in South America:

1979 1996	Peru	Fundación Fondo de Garantías para Préstamos a la Pequeña Industria (FOGAPI) Fondo de respaldo a la Pequeña Empresa (FONREPE)
1981 1995	Colombia	Fondo Nacional de Garantías (FNG, SA) Sistema Nacional de Garantías (SNG, SA)
1983 1983	Ecuador	Corporación de Garantia Crediticia (CORPOMICRO) Corporación de Retrogarantía
1985	Bolivia	Programa FUNDES de Garantías para Latinoamérica (extinguido)
1989	Venezuela	Sociedad Nacional de Garantías para la Mediana y Pequeña Industria (SOGAMPI)
1991 1991	Chile	Fondo de Garantía para el Pequeño Empresario (BANESTADO) Programa de Garantías de CORFOS
1995 1995	Argentina	Ley SGR (garantizar SGR, CAES SGR, avaluar SGR y MACROAVAL SGR) Fondo de Garantías de Buenos Aires (FOGABA)
1995 1996	Uruguay	Fondo Cooperativo de Garantias de Uruguay (FOGAR) Fondo de Garantías del Banco de la República Oriental de Uruguay (BROU)
1996	Brazil	Fondo de aval SEBRAE
1996	Alega	Asociacion Latinoamericana de Entidades de Garantía (ALEGA)

As mentioned above, a number of steps have been taken in the Ibero American world to reactivate guarantees systems. Among these we have new legislation on Reciprocal Guarantees Societies (RGS) in countries such as Spain and Portugal (1994), Argentina (1995) and Venezuela (1999); the beginning of regulations in Brazil, Peru and Uruguay; the capitalization of some guarantees funds (Colombia, El Salvador, Peru) and their restructuring towards the portfolio guarantees model 3; or the above mentioned 1995 restructuring of Colombia's national guarantees system which led to the creation of a system supported, regulated and vouched for by the National Guarantees Fund (Fondo Nacional de Garantías, SA) together with twelve regional funds. To these initiatives we must add the recent creation of collective associations aimed at optimization through shared experience. Thus, we have the establishment in 1996 of ALEGA (Asociaciones Latino-Americanas de Entidades de Garantías) and the more recent creation of REGAR (Red Iberoamericana de Garantías) an associative network encompassing Ibero American guarantees agencies and institutions aimed at strengthening national guarantees systems and at providing a perfect venue for discussions between agencies and the elaboration of endogenous policies on SMEs.

Spain and Portugal have developed their own systems according to the policy guidelines provided by the European Union and following the model of reciprocal guarantees societies. Portugal's experience in this are is not as conspicuous as that of Spain, which registers the highest level of activity within the Ibero American world, assisting close to 50,000 partners and enterprises and granting close to US$1,300 million in guarantees.

Allow me to highlight the major guarantees system operating in Latin America. In Mexico there are several guarantees programs backed by public sector financial agencies and trust funds. The NAFIN guarantees program (Nacional Financiera) has been operating in Mexico since 1996, offering additional guarantees over traditional ones, not replacing but rather supplementing them. These guarantees support the credit granting banks, which are their beneficiaries. Today, NAFIN´s resources total US$ 23 million, covering 4,350 operations and guarantees for the updated amount of US$ 32.6 million. Its delinquency index is of 2.5% (as of August 1999). Bancomext (Banco Nacional de Comercio Exterior) is the Mexican government's tool to increase the competitiveness of Mexican enterprises, particularly SMEs, directly and indirectly engaged in exports. Among Bancomext´s services is a program aimed at protecting enterprises from export risks during the stages of production and commercialization to other markets and at providing an incentive to financial agencies when the need arises to channel greater financial resources into export activities. As of August 30,1999, Bancomext´s guarantees portfolio totaled US$ 250 million, covering close to 300 active enterprises. In the period from 1987 to 1998 it has assisted around 1,500 enterprises, almost all SMEs. During the same period, the average delinquency index was o.72%. Another Federal Government agency, FIRA, operates as a second stage financial entity, following the national policy aimed at developing the rural and fishing sector. Currently FIRA´s active guarantees portfolio totals US$300 million (fiscal year 1998). FIRA encompasses the following trust funds: FONDO (Guarantees and Development Fund for Agriculture, Livestock and Aviculture), FEFA (Special Fund for Agricultural and Livestock Financing), FEGA (Special Technical Assistance and Guarantee Fund for Agricultural and Livestock Credits, FOPESCA (Guarantees and Development Fund for Fishing Activities).

In El Salvador the guarantees fund's concept has developed significantly, resulting in up to 5 funds, some already defunct, ever since the establishment of FIGAPE. The Small Enterprises Financing and Guarantees Fund (FIGAPE) was created on May 10,1973 as a public credit institution with the authority to grant guarantees. The fund is currently scaling down its guarantees program to the point where it basically just grants micro credits, particularly to businesses in San Salvador. The Guarantees Fund for Small Entrepreneurs (FOGAPE) has headquarters in San Salvador and it has its own legal personality, as of 1992. The Fund for Agriculture and Livestock Guarantees (FOGARA) was established in 1992. FUSAID, a US fund with headquarters in Washington, D.C., has been operating in El Salvador since 1998. We will return to it later. As for FOGACRE (Duty Free Areas Fund), it is currently administered by BMI, lacking its own agency. Actually, once the guarantees it had granted run out the fund will cease to exist, as it is expected that it will not grant new ones. Between FOGAPE and FOGARA, over US$21 million worth of guarantees are offered, covering close to 14 clients from the SMEs and agricultural sector.

It is important to point out that according to El Salvador's projected mutual guarantees system during the first four months of the year 2000 these funds will constitute a trust fund that will develop, based on its own resources, a network of reciprocal guarantees societies.

Costa Rica's FONAGA (National Guarantees Fund) was established by decree in March 1996 and modified somewhat at the end of 1997. Its objective is to grant guarantees that may facilitate access to the national financial system for small and medium scale enterprises and small agricultural producers. Ninety per cent of the country's enterprises are small and medium scale. FONAGA aims to cover 50% of approved loans not exceeding 10 million colons (around US$35,000), with an average 2% commission.

In Argentina the general guarantees system has been evolving since 1995 and today it includes four reciprocal guarantees societies (RGS). These are: GARANTIZAR, a RGS under the wing of the Banco de la Nación Argentina, with 757 SMEs members of the Confederación General Económica de Argentina, the Consejo General Argentino de la Industria and Unión Industrial Argentina, with a US$35 million corporate capital.

CAES (Compañía Afianzadora de Empresas Siderúrgicas), which includes SIDERAS, S.S., Grupo Techint and 361 SEMs as participating partners, with a US$15million corporate capital.

AVALUAR, aimed at the aluminum sector, with a US$32.4 million corporate capital and 124 SMEs. To date it covers US$17million in active guarantees. MACROAVAL formed by the Governmemnt of Salta Province, Banco de Salta and Banco de Jujuy and 112 SMEs as participating partners.

Regarding guarantees funds, in 1995Argentina established the Guarantees Fund of the Province of Buenos Aires (FOGABA). It is a joint stock company in which the state is the major partner, with USA$ 27 million. FOGABA is underwriting US$25.6million guarantees for 301 operations and by September 30,1999 had carried out 141 operations for a total of US$13.8 million. In 1998 total operations covered 100 cases for a total of US$13.9 million. The delinquency rate over all active guarantees is of 3%.

In Venezuela SOGAMPI, S.A. was established in 1990 as a joint stock company comprising the Venezuelan State, the banking sector, Fedeindustria, unions, institutions supporting SMEs and beneficiary partners (196 enterprises). Legislation was approved recently regarding reciprocal guarantees societ-ies (August 1999 decree) and there is a project to develop a refinancing system. The project for system of national reciprocal guarantees societies has been developing since 1997. Its initial stage, the approval of legislation, culminated with the August decree.

Ecuador has developed its Credit Guarantees System, cre-ated in 1983, through the Fondo de Retrogarantía, which is in charge of planning, administering and evaluating the system. It comprises the Corporación de Retrogarantía Crediticia, credit guarantee corporations, the public and private financial systems and beneficiaries. Ecuador´s Central Bank, the National Devel-opment Bank (Banco Nacional de Fomento) and other agencies of the national financial system and credit guarantee corpora-tions finance the Fundo de Retrogarantía. Corpomicro is one of the agencies. It is a non-profit Ecuadorian Private Law Financial Institution which encompasses a number of non-governmental organizations administering important loan programs for micro enterprises.

Peru´s system operates since 1979 through the Guarantees Fund Foundation for loans to small industry (FOGAPI). The Foundation is financed by a number of private and public agencies, mainly the Financial Development Corporation (CO-FIDE). FOGAPI is a non-profit foundation different from others in that it is not transitory. It is, basically, a guarantee agency under the supervision and regulation of the Banks and Insur-ance Superintendence. Recently Peru has successfully restructured its activity in this field towards the portfolio guarantees model. During 1999 FOGAPI assisted 13,452 SMEs, granting guarantees for more than US$15,5 million which have facilitated loans for over US$37 million to SMES. During the 1980-1999 period, it carried out 22,767 operations for a total of close to US$103 million in loan guarantees. Currently FOGAPI has a balance of US$11,5 million in outstanding guarantees, supporting 8,548 active clients. The Fondo de Respaldo para la Pequeña Empresa (fund to back small enterprises) was established in 1996 to establish a program of sure loans for small national enterprises needing access to private financing. FONREPE has a legal 5 years life span and a US$25 million capital. It is operated by a National Insurance Company chosen by public bid and it is supervised by the country's banks and insurance superintendence.

Colombia´s National Guarantees System (Sistema Nacional de Garantías, S.A.) was established in 1995. It evolved from the previous system whose reform was considered a great success, considering that it assisted close to 15.000 enterprises, with almost US$25 million in outstanding guarantees. The system comprises the National Guarantees Fund (FNG, S.A.) and 12 regional funds operating throughout the country. FNG, S.A. has been operating since 1981 as a mixed capital society related to the Ministry of Development. Like other regional funds, it is defined as a mixed economy society subject to state rules on industrial and commercial enterprises. Today it underpins the whole national guarantees system, besides granting its own guarantees.

The State Bank (Banco del Estado) established Chile's guarantees fund for small entrepreneurs (BANESTADO) in 1991. The guarantees program of the Production Development Corporation (CORFO) stands out for its level of activity and innovative programs. It has introduced through its financial intermediation mechanisms a support program to access the financial market through guarantees, subsidies and co-financing. Its solidary guarantee sand subordinate bonds programs are particularly outstanding as they imply the development of private bank platforms to meet the needs of small and medium scale enterprises.

The Fondo Nacional Cooperativo de Garantía (National Cooperative Guarantee Fund) has been operating in Uruguay since 1995. It is a private entity comprising over 30 public and private institutions and it operates as a "second stage" agency. The guarantees fund of the Banco de la Republica Oriental de

Uruguay, the main state bank after the Central Bank, has also been operating since 1996. This bank held a long-term credit line for small enterprises, which included mechanisms to grant guaranteed loans. The system was based on loans backed 50% by guaranteed collateral and 50% free of guarantees following the debtor's payment of a 2% additional rate.

The Brazilian Service for SMEs to ease these enterprises' access to financing established Brazil's Fondo de Aval of SEBRAE in 1996. To date, the fund has carried out a total of 7,809 operations, contributing to the creation of 26,395 new jobs. In total, R$266.1 million were financed, together with the financial agencies associated to the system, with guarantees for a total of R$126.8 million, almost 47.7% of all financed loans. Of all guarantees granted, 37.9% were for the trade sector, 36% for the industrial sector and 23.9% for the service sector. Of the enterprises participating in this system, 79.6% are micro and 14.8% small-scale enterprises. Even during times of crisis and high bank requirements, the Fund undersigned 197 new credit contracts in September 1998, allowing for a total of R$6.6 million loans by financial agencies. During the first nine months of last year the Fund carried out 2,790 operations, complementing guarantees for a total of R$49.2 million, allowing for a total of R$99.4 financed loans and creating 12,041 new jobs. In July 1999 SEBRAE added the Fondo Aval de Exportaciones (FAPEX), aimed at assisting SMEs engaged in export activities or considering to do so. The new fund is part of the government's measures to facilitate the foreign trade of small and medium scale enterprises.

V. Conclusions

- Guarantees programs require the establishment and definition of a true state policy and an acknowledgement of the importance of SMEs for the creation of jobs and wealth.
- During the 1990´s those countries that already had guarantees systems continued to develop new ones and those that had none established them or are in the process of doing so. Thus, guarantees systems are expanding and consolidating throughout America, Asia and Europe.
- Guarantees systems are an indispensable tool to facilitate access to financing for micro and SMEs under the best conditions. They are an industrial-economic policy tool to create new jobs.

- In order for guarantees systems to function optimally and to insure their economic and financial balance, public agencies, financial institutions and entrepreneurial organizations must work jointly and in a coordinated manner in the design of a stable long term plan.

Notes

1. In formulating general references to micro, small or medium-size enterprises, their different scope from a national, sub-regional or regional standpoint must be kept in mind. Criteria such as the number of employees, total assets or sales volume have usually been taken into account. Employment is an example of how definitions may vary. In the US this category includes firms with up to 500 employees; in Japan and in neighboring countries, 300 is a limit; the EU does not admit under its definition of small and medium scale firms any with more than 250 employees. In the case of developing countries, such as for example in Central America, a general and realistic definition should not include firms with more than 100 employees and should take into account the important micro-enterprises sector as well as family businesses. In Latin America the European standard has been adopted although only in relation to the industrial sector, as is the case in Mexico.

2. In the case of China a distinction in relation to Hong Kong must be stressed to take into account both general economic considerations as well as the different guarantee-systems developed in each case. Although both are recent in time, in the first instance they have been put in place through a State-sponsored program while in the second case through a system of corporate guarantees much more attuned to the general characteristics of South East Asia.

3. New portfolio-guarantee mechanisms, also known as 'second floor' guarantees have of late been developed. In such cases the guarantee no longer covers a particular business operation. Instead, it directly covers a credit line, put in place by financial institutions in specific relation to the micro, small and medium-size enterprises sector. Today, the experiences of Colombia and Peru in this regard are considered successful and there are already other countries, such as Nicaragua, where, to the exclusion of all others, the creation of a Guarantee Fund following the portfolio guarantee model is been considered.

SELA, a Natural and Privileged Scenario for Debating our Region's Fundamental Issues

At the opening session of the XXV Ordinary Meeting of SELA's Latin American Council Venezuela's Minister of Foreign Relations underlined the work carried out by this organization throughout its 25 years of existence and called upon its member states to make of this "home of Latin America and the Caribbean"-as he called it- a venue for "political coordination on economic issues".

El SELA, escenario natural y privilegiado para debatir los temas fundamentales de nuestra región

Al inaugurar la XXV Reunión Ordinaria del Consejo Latinoamericano del SELA, el Ministro de Relaciones Exteriores de Venezuela destacó la labor realizada por este organismo a lo largo de sus 25 años de existencia, e hizo un llamado a sus Estados Miembros para que esta "Casa de América Latina y el Caribe" -como lo calificó- se convierta en un lugar "para la concertación política en materia económica" entre los países de América Latina y el Caribe.

Le SELA, cadre naturel et privilégié pour débattre les questions fondamentales de notre région

A l'ouverture de la XXV Réunion ordinaire du Conseil latino-américain du SELA, le ministre vénézuélien des relations extérieures a souligné le travail accompli par cet organisme au long de ses vingt-cinq années d'existence et invité ses Etats membres à "Faire de cette Maison de l'Amérique latine et des Caraïbes", selon ses propres termes, "un lieu de "concertation politique en matière économique" pour les pays d'Amérique latine et des Caraïbes

O SELA, cenário natural e privilegiado para debater os temas fundamentais de nossa região

Ao inaugurar a XXV Reunião Ordinária do Conselho Latino-Americano do SELA, o Ministro das Relações Exteriores da Venezuela, destacou o trabalho realizado por esse organismo durante seus 25 anos de existência, fazendo um apelo aos Estados Membros para que esta "Casa da América Latina e do Caribe" se converta num lugar "para a concertação política em matéria econômica" entre os países da América latina e do Caribe.

SELA, a Natural and Privileged Scenario for Debating our Region's Fundamental Issues

➾ José Vicente Rangel
Minister of Foreign Affairs of Venezuela.

Speech delivered at the opening session of the XXV Ordinary Meeting of SELA's Latin American Council, held in Caracas on October 26-29, 1999.

I have a serious mission to carry out this morning. Firstly, to represent President Hugo Chávez, whom we accompanied on an extensive trip from which we returned just a few hours ago. He apologizes for not being able to attend the meeting. Nonetheless, he asked that I ratify his solidarity with this Organization. Another commitment is to bid farewell to a friend, Ambassador Carlos Moneta, whose wisdom and honesty is recognized by us all and who directed SELA with great professionalism. And just as you yourself pointed out, please remain assured, Ambassador Moneta, that this will always be your land, and as of now, in view that the Constitution will be providing for dual nationality, I offer you ours.

It is a pleasure to come to this house of Latin America and the Caribbean and exchange ideas with you. The Latin American Economic System is the House of Latin America and the Caribbean, since it is the only organization that groups together almost all of the countries of the region in an exclusive way, which has made it possible to coordinate ideas and positions on regional and extra-regional issues and problems.

This XXV Latin American Council is taking place in a context that is particularly interesting for the Latin American and Caribbean region. The realities and challenges that justified its creation are still relevant, or to be more exact, are more relevant now. What has changed, undoubtedly, is our perception of these problems. This circumstance alone should make us think about the role we wish to bestow on the Latin American System.

The current regional context has certain characteristics that it would be advisable to tackle even if only partially. Latin

American integration, an idea we have played with for decades as the ideal scheme for regional linking, today seems to be a reality, at least in the area of trade. But to what extent it might remain a reality if it is not linked to human and political integration, today is a fundamental question which requires an answer. My way of seeing things is that there are two approaches to integration. The formal approach, which only takes economic and trade data into account, and the second, whose roots are found in Bolivar, whose meaning is much more complex, more audacious, which proposes the integration issue in a dynamic way, with a sense of history, based on local and regional realities. In this respect, preferential trade agreements have proliferated in number, scope and dimension in proportions hitherto unknown. Parallel to this, the international organizations we created on the basis of broad expectations exhibit a certain weakness, which in turn generates confusion and bewilderment.

"*I have no doubt that true integration has the force to do away with the perversions that come with globalization.*"

Another characteristic worth underlining concerns globalization and the region's incorporation into the large international trade and economic flows. This process, generally viewed as a potentially disturbing factor in the traditional handling of our international relations, has demonstrated a vitality that makes us think about its irreversible nature. Vis-à-vis this fact, we the Latin American and Caribbean peoples must ask ourselves about the most suitable way of taking on the challenges and possibilities that it presents us.

For my part, I have no doubt that true integration has the force to do away with the perversions that come with globalization.

A new context seems to be opening up in relations with the United States of America. Relations that have been traditionally tense for decades would seem to be giving way to a relation based on mutual respect and a consensus in the acknowledgement of differences and nuances. We must never underestimate the predominant role of the United States in the region, and the far-reaching influence that the negotiations for the Free Trade Area of the Americas (FTAA) have had on all the trade processes in which we participate.

There is no question that the assertion of national sovereignty is the best basis for our relations with the superpower of the North.

Likewise, we are at the doors of a new Round of Multilateral Negotiations in the framework of the World Trade Organization

(WTO). The variety of issues to be dealt with, their deep repercussions on our economies, and the opportunity they represent for obtaining an ordered legal framework for international trade, are elements that require a special in-depth evaluation.

Summarizing the regional context, it could be said that it is particularly intense in the sphere of integration, at the same time as we are witnessing a simultaneous process of intensification of globalization, and experiencing an accelerated process of international trade negotiations with our principal trade partner, the United States. In the middle of this complex situation, the Millennium Round which is approaching brings us face-to-face with a challenge that is especially important because of its implications in the regulation of international trade.

I am absolutely sure that I have not exhausted the issue, nor was that my intention. I am only stressing some areas that demand attention. The institutional weakness we observe in some organizations does not, of course, contribute to their better treatment. The Latin American Economic System (SELA) offers a convenient and adequate scenario. On the one hand, the Latin American and Caribbean countries participate in it, as they do not in any other forum. On the other, during its 25 years of existence, it has accumulated knowledge and experience that deserve to be taken into account.

However, we have been able to observe how our organization has gradually been losing its importance in view of the proliferation of other policy coordination bodies in the region, especially since the creation of the Rio Group, which stripped it of its policy coordination capacity. This crisis, which we could call existential, has also manifested itself in a persistent lack of interest by the Member States in its meetings and in complying with their financial commitments, generating a chronic financial crisis that threatens its existence.

It often happens that we are sometimes less diligent in our own efforts than in those where we want to shine vis-à-vis third parties; we give less support and less importance to our own organizations, like SELA, and we do not give them the necessary resources for their optimum functioning.

An example of what I have just described is how we were unable to take advantage of the Action Committees, an original mechanism that allowed us to work together in specific matters and issues. In the past we created Action Committees like the one to Support Central American Development (CADESCA), a predecessor of the Contadora Group and the Rio Group. Today, on the contrary, there are no Action Committees because of the difficulties encountered by the Member Countries in their financing.

In this context, SELA has been able to successfully carry out only part of its work –which I will add is extremely relevant– the one relative to studies and meetings, and its contribution in broadening the framework of external action and regional cooperation, but it has done little or nothing in the area of coordinating economic policies.

“Many of the challenges imposed on us by globalization could be studied and better understood and confronted through SELA's well-known capacity for organizing prospective and analytical events.”

However, what it has done, it has done very well, even overcoming a fire that destroyed its offices and goods. It now has to carry out an ambitious task: to act as a place of political coordination in economic matters among the Latin American and Caribbean countries.

For this reason, I want to insist on the advisability of turning more to SELA to take better advantage of its capacities, and that we should make the necessary and unavoidable effort to comply with the financial commitments we have taken on. We should also offer our intellectual support so that the institution may effectively tackle the Work Programme we approved during this meeting which, as we know, will allow us to advance in our development process.

We believe that many of the challenges imposed on us by globalization could be studied and better understood and confronted through SELA's well-known capacity for organizing prospective and analytical events together with other regional and extra-regional institutions; as well as its renowned capacity for disseminating publications that are basic contributions to this issue.

The launching of another round of multilateral trade negotiations in the framework of the WTO, the Millennium Round, and the configuration of a Hemispheric Free Trade Zone for the year 2005, are objectives that pose a new challenge for Latin America and the Caribbean; SELA, as a mechanism for consultation and coordination of economic matters, has the opportunity to once again play the important role it had during the seventies and eighties.

In the sphere of economic integration, we must not ignore SELA's valuable contributions and experiences. Therefore we should promote, within the framework of this organization, actions and activities that facilitate and offer support to the different integration processes and arrangements that are taking place in Latin America and the Caribbean, promoting their convergence and articulation.

The strengthening of regional agreements is a priority in the current Venezuelan Government's foreign policy. Since we took over in February, regional integration has occupied the national authorities' attention because of a profound conviction, with deep historical roots, that this is a strategic option of the first order. Likewise, we believe that integration produces obligations that we cannot ignore, because the risks of remaining isolated and weak are evident.

"SELa appears to be the region's natural scenario for the exchange of experiences and the taking or both coordinated and shared decisions."

Other consultation and coordination mechanisms like the Rio Group could eventually be nourished by SELA's experience and the latter could become, and why not, a kind of technical secretariat for the former. The organization's accumulated experience of 25 years, in addition to being based on a flexible international treaty still in force, could convert it into a natural technical secretariat working in favor of our efforts for Latin American integration and unity. I believe this is something we should think about.

On the other hand, everything concerning the definition of employment, development and industrial promotion policies and their link to trade and financial policies, as essential instruments in the fight against the inequality and poverty that seriously affect us, are our responsibility and we should assume them as our own. To do this, SELA appears to be the region's natural scenario for the exchange of experiences and the taking of both coordinated and shared decisions.

For my government, the support and promotion of Latin American and Caribbean integration is not merely an exhortation but a constitutional duty since the current 1961 Constitution and the preamble to our new constitution, presently under discussion and soon to be approved, include promoting the integration of the Latin American and Caribbean community of nations. That is, for us, Latin American Integration has a constitutional rank.

Although many of those present here are familiar with it, I would like to briefly mention the process of change taking place in Venezuela. As several of you know, on the basis of a process that involved the election of a National Constituent Assembly, a new Constitution is being prepared. This Constitution broadens the channels of democratic participation, brings the public powers closer to the citizens and aims to guarantee all individual, social, and political rights on effective bases.

In the new Constitution, regional integration will be given the hierarchy it deserves. Not only will it commit the Executive to strengthening it but also to outlining ways to facilitate fulfillment of the commitments that may be acquired in this area. In line with these obligations, the Ministry that I head has made a considerable effort, in terms of doctrine and theory, to adapt itself to new realities. To an active participation in the international context, without any ideological distinctions, we have added a process of deep reflection about the scope and orientation of foreign policy. We also wish to meet the training needs of our personnel for which we have developed a number of activities.

Delegates, I believe it is especially propitious that this XXV Latin American Council should reflect on SELA's future role. Not only the election of a new Permanent Secretary contributes to this aim. This meeting is taking place in the middle of a process to evaluate the organization, which has been going on for some time and which we think should be deepened. In this respect, I believe our debates should be very frank.

To conclude, we recognize we have before us the opportunity and also the possibility of exploiting this institution, which belongs to us all equally, in an efficient and better way. It is therefore necessary for us to meet our budget obligations and thus give SELA the possibility to meet the commitments set out in the Work Programme for the year 2000.

Otherwise the organization's existence will be threatened and we will condemn it to an uncertain future. On the other hand, a strengthened Latin American Economic System could be an additional guarantee to obtain the development objectives of the countries in the region.

I therefore believe that we should make an honest effort to guide SELA's activities towards the big areas that I mentioned and which seem to shape the regional context, that is: Integration, FTAA and Globalization. We have in SELA a privileged forum, big challenges to confront and opportunities that we should exploit. The commitment of the Venezuelan Government, of the President of the Republic, Hugo Chavez, with the organization is rock solid. It has its headquarters in this city and we shall continue to give it all the support it may need, as we have done to date.

As Ambassador Moneta just told us, neither cures nor recipes exist to take on the big problems of the region in the immediate future. This fortunately means that everything will depend on us, on our capacity to take action. Instead of turning to "magic", where we must turn to is our own imagination. Perhaps this is the biggest challenge facing the people of Latin America and the Caribbean at this moment in time and under the present circumstances.

On behalf of the Government of Venezuela, I wish you success in these discussions.

More Than Ever World Reality Requires Coordination and Cooperation Between SELA Member States

Upon concluding his four year term as SELA´s Permanent Secretary, the Argentinean Ambassador, Carlos Moneta, warned in his farewell speech that the major challenge our region faces is to succeed in participating in the ongoing financial, trade, technological and cultural globalization while, at the same time, reaching an integral and sustainable level of development. To this end, the coordination and cooperation between Latin American and Caribbean countries is "urgent" and the importance of regional institutions such as SELA is once again reasserted.

La realidad mundial nos impone más que nunca la coordinación y cooperación entre los países del SELA

Tras culminar su período de cuatro años al frente de la Secretaría Permanente del SELA, el embajador argentino Carlos Moneta advirtió en su discurso de despedida que el gran reto que tiene por delante nuestra región es lograr su inserción en la globalización financiera, comercial, tecnológica y cultural y, al mismo tiempo, alcanzar el desarrollo integral y sustentable al que legítimamente aspiran sus naciones. Por ello, aseguró, cobra "pleno y urgente sentido" la coordinación y cooperación entre los países de América Latina y el Caribe y vuelven a cobrar importancia las instituciones regionales como el SELA.

La réalité mondiale impose, plus que jamais, la cooordination et la coopération des pays du SELA

Après être parvenu au terme de son mandat de quatre ans à la tête du Secrétariat permanent du SELA Monsieur l'Ambassadeur Carlos Moneta a affirmé, dans son discours d'adieu, que le principal défi auquel notre région doit faire face est son insertion dans le processus de globalisation financière, commerciale, technologique et culturelle tout en parvenant à un développement intégré et durable qui constitue la légitime aspiration des nations qui en font partie. C'est pourquoi, a-t-il ajouté, la coordination et la coopération entre les pays d'Amérique latine et des Caraïbes "revêtent un caractère absolu et urgent" d'où l'importance renouvelée d'institutions régionales telles que le SELA.

A realidade mundial nos impõe, mais que em qualquer época, a coordenação e a cooperação entre os países do SELA

Após culminar seu período de quatro anos à frente da Secretaria Permanente do SELA, o Embaixador argentino Carlos Moneta ressaltou no seu discurso de despedida que o grande desafio que a nossa região tem pela frente é lograr sua insersão na globalização financeira, comercial, tecnológica e cultural e, ao mesmo tempo, alcançar o desenvolvimento integral e sustentável ao qual aspiram legitimamente suas nações. Nesse sentido, assegurou que a coordenação e cooperação entre os países da América Latina e do Caribe, cobram "pleno e urgente sentido" e que as instituições regionais como o SELA voltam a cobrar importância.

More Than Ever World Reality Requires Coordination and Cooperation Between SELA Member States

Carlos Moneta
SELA's outgoing Permanent Secretary

Speech delivered on December 1, 1999 upon relinquishing the post of SELA's Permanente Secretary for the period 1995-1999.

With the onset of a new century and new millennium, societies become more sensitive to matters of reflection and analysis. Past decades have borne a variety of prophets each of which recommended a "deus ex machina" approach that naturally is ensued by a single solution. The cruelty of the infinite number of mistakes –ongoing and with not solution yet found– made by contemporary international economics is proof that no magic formulas exist.

Unfortunately, a greater part of the developing world must turn to solutions based largely on resignation, low or even negative economic growth rates, never-ending violent financial crises, for the most part beyond our control. A disheartening fatalism seemingly rules to which we need to react. As was pointed out at the XXV Regular Meeting of the Council, our challenge lies in overcoming the divergence, confirmed by numerous factors, that exists between the actual modality used to participate in globalization in the spheres of finance, trade, technology and culture, on the one hand, and the sustainable development aspired for our countries.

"The road before us is one of arduous theoretical and practical work which will make it possible to grasp the Latin American Caribbean reality."

The road before us is one of arduous theoretical and practical work which will make it possible to grasp the Latin American-Caribbean reality: examine how it fits in to the world economy and the globalization process; determine what is most convenient for the region and implement actions that can contribute to giving shape to the increasing complexities of the future.

For example, by creating a regional economic area, an adequate environment is generated for the development of member states, the growth and perfecting of their economic actors and an increase in the maneuvering capacity of both types of actors in the global framework. In that sense, the approaches to "open regionalism" must face up to and find a solution to the tension that arises between objectives and policies applied to promote free trade and enhance global economic participation. These processes need also to contribute to the modification of the general outlook and current operating guidelines of the international-transnational system. Hence it seems that development alternatives and regimes more in tune with the realities of member states are needed, taking advantage of the regional scale and at the same time contributing to the design and praxis of a global economy characterized by greater pluralism.

To date, the spectrum of economic adjustment proposals made to date presents two extremes: on the one hand, the experiences of the Asian economies, which develop a strategy of insertion and selective resistance to Western capitalism by applying their own models and, on the other, neoclassical orthodoxy whose aim it is to totally liberalize the market and minimize the role of the State. A third direction is that of regional development as an instrument for development and separateness from globalization, based on following the African concepts of the eighties. These approaches were developed during the 1990's based on the idea of endogenous regional development aimed at contributing the establishment of a polycentric world, in alliance with other regions. In other words, to design and implement other paths that will lead to growth without incurring in the high costs of the neoclassic economic model is an issue being debated across the globe. In our region, however, this debate is both timid and limited.

This multiform reality injects new meaning into coordination and cooperation among the countries of Latin America and the Caribbean. Regional institutions regain importance and a broad and vital scenario emerges in which our civil society can express itself and take actions.

And this is precisely the scenario and the sort of challenges which SELA has contended with over the past quarter century. Perceptions, requirements and problems have changed with the times but the institution continued to march on, adjusting to the new beat set by changing circumstances. Every individual who had the honor of steering the institution's course did well in adequately responding to the challenges that came with each stage. And today it is my turn to set both the sad and cheerful mood that comes with bidding farewell. Sadder remembrances of the more difficult moments which were overcome by the joint effort - of Member State representatives and Permanent Secretariat staff alike. And the joy of having been able –also because of our shared efforts– to caulk this ship, head for new horizons, docking the ship so that a very able and eager captain –my highly appreciated and good friend, Ambassador Otto Boye Soto– can take its helm and take on new and successful journeys.

Of these years, I will keep in my spirit the fond memory of the moments shared with you, and for which I am truly thankful. And I also leave with the firm belief that we are all bound by a clear vision of commitment to Latin America and the Caribbean that goes beyond the diversified strategies dictated by circumstance.

Today I must sever myself from this institution but this new distance is merely physical and every one of us will continue, in one way or another, to battle so that SELA's ideals and dedication crystallize to favor of our region.

My dear work partners of the Permanent Secretariat, distinguished colleagues, and friends of the Member States, of the diplomatic corps and regional and international organizations accredited before the Government of Venezuela, this ceremony opens a new stage in the life of SELA, conducted by a renowned humanist from Chile, Ambassador Otto Boye Soto. I wish him and all of you great success. The torch has been handed over to new hands, a new episode of history begins, which was so well expressed by the poet when he said:

"If when we look back the past disappears,
if history has ceased to exist, without our having realized it,
how can any value be attributed to time, how can we grow old
with no notion of memories?
How can there be reason in the absence of sense?
Can hate or love be when there is no history?
Perhaps it is necessary
To change our perception, build a new calendar."

The Unity and Integration of Latin America and the Caribbean, SELA's Great Objective

Upon beginning his 1999-2003 term as SELA´s Permanent Secretary, the Chilean Ambassador Otto Boye pointed out that today the Latin American and Caribbean region is a reality with its own historical and cultural heritage. Its unity and integration, however, is a goal yet to be achieved due to the absence of a strong institutional framework capable to carry out such endeavor. In this regard, he underlined that it has been and will continue to be SELA´s major task to contribute to making Latin American and Caribbean integration a reality.

Unidad e integración de América Latina y el Caribe, la gran meta del SELA

Al asumir el cargo como Secretario Permanente del SELA para el período 1999-2003, el Embajador chileno Otto Boye refirió que América Latina y el Caribe es hoy en día una realidad con un perfil histórico y cultural propio, pero que su unidad e integración es todavía una meta por alcanzar porque la región no cuenta con una institucionalidad vigorosa capaz de llevar a cabo con éxito esa empresa. En ese sentido resaltó que la gran tarea del SELA ha sido y seguirá siendo la de contribuir a hacer realidad el objetivo de la integración latinoamericana y caribeña.

L'unité et intégration de l'Amérique latine et des Caraïbes: le grand objectif du SELA

En prenant possession de sa charge de Secrétaire permanent du SELA pour la période 1999-2003, Monsieur l'ambassadeur Otto Boye, a déclaré que s'il est vrai que l'Amérique latine et les Caraïbes sont aujourd'hui une réalité et qu'elles ont un profil historique et culturel propre, leur unité et leur intégration restent un but à atteindre, car la région n'a pas encore la solide institutionnalité lui permettant de mener cette entreprise a bien. Il a précisé à cet égard que la principale tâche du SELA a été et continuera d'être de faire en sorte que l'intégration de l'Amérique latine et des Caraïbes soit une réalité .

Unidade e integração da América Latina e do Caribe, a grande meta do SELA

Ao assumir o cargo de Secretário Permanente do SELA para o período 1999-2003, o Embaixador chileno Otto Boye afirmou que a América Latina e o Caribe representam hoje em dia uma realidade com um perfil histórico e cultural próprio, sendo sua unidade e integração uma meta ainda a ser alcançada porque a região não conta com uma institucionalidade vigorosa capaz de realizar essa empresa com sucesso. Nesse sentido, ressaltou que a tarefa do SELA tem sido e continuará sendo contribuir para que o objetivo da integração latino-americana e caribenha torne-se uma realidade.

The Unity and Integration of Latin America and the Caribbean, SELA's Great Objective

Otto Boye
SELA's Permanent Secretariat

Speech delivered on December 1, 1999 upong taking office as SELA's Permanent Secretary for the period 1999-2003.

First of all, I thank all of you for being with us here today. I interpret this presence as a vote of support to SELA and to the important work it performs. This support, which today has a personal meaning for me in view that so many of you are also my friends, is more decisive and transcendental than ever before because we are about to begin a new period. A period marked by a very particular moment in time, requiring the region's to move ahead with the serious reforms agreed to in 1998 and whose implementation already began during the year that soon ends. SELA rose from ashes (literally and symbolically) as a direct result of these reforms under the captaining of Carlos Moneta, who at the helm conducted SELA through this crucial stage and to whom we are all most thankful for his full dedication to the difficult work which the member states entrusted him with. Allow me to publicly acknowledge Carlos Moneta's work and render him a sincere and merited recognition which I extend to the team that worked by his side.

I did bring a few reflections as a preamble or introduction to my term as Permanent Secretary of SELA. My perception is that we are coming closer to a moment of all-encompassing thought on the destiny that awaits Latin America and the Caribbean, a period to weigh the positive and negative aspects and to come up with new proposals. And for that reason I will only set forth an initial approximation of this process that is opening up before us and which is a responsibility shared by us all. Undoubtedly, new and successive approximations will arise as time goes on and as our work progresses.

I would like to begin by making a few historical references.

In the late 60s, the idée-force shaped by the governments and ministers of foreign affairs of our subcontinent was that of Latin American nationalism. The concept was forged into a notable document, the "Consensus of Viña del Mar", which was approved on 17 May 1969, at a meeting of Ministers of Foreign Affairs convened by the Latin American Special Coordination Commission (CECLA). Latin America, which at that time did not count on the important contribution of the English-speaking countries of the Caribbean, existed in a world divided into two large blocs that snared at each other pointing nuclear arsenals one against the other in sign of mutual mistrust. At the time, the nations of Latin America considered dependence on the United States to be their main problem. As we all know, this circumstance determined every aspect of that time in history, from the political to the cultural, the military and even the academic.

At Viña del Mar, the Ministers of Foreign Affairs defined some entirely Latin American interests. They also decided to communicate their proposal directly to the United States of America. The Minister of Foreign Affairs of Chile, Gabriel Valdés, having accepted the mandate of his colleagues and accompanied by the Latin American ambassadors, explained to President Nixon the resolutions adopted and their scope. One of the ideas voiced by him was that this was the first time that Latin America expressed "its unity in the definition of principles and in the identification of problems affecting its relations with the United States of America". The objective was to "seek new terms for relations in the hemisphere." And in concluding, he said that, definitely, both parties faced the very same challenge: "to build fair, dynamic and peaceful societies".

Although the historical phenomenon of dependence has not disappeared, we now live in a time of a complexity previously unheard of. Confrontation between two large blocs no longer prevails and the world is instinctively restructuring itself around groups of nations that cover extensive geographic, political, economic, social and cultural areas. Today, unlike the past referred to, it is no longer enough to define our own regional interests vis-à-vis a single counterpart. In the new scenario, a much larger spectrum of actors is involved, and some of these actors are almost as large and powerful as the United States of America thirty years ago.

SELA, the continuation of CECLA in whose sphere the Consensus of Viña del Mar was approved, was founded in 1975 in a context of serious political limitations (its very name, which limits Latin American reality to a single aspect clearly reflects it as so).

We experienced, and many of us suffered the consequences of political restrictions and massive human rights violations in the 70s and part of the 80s. Nonetheless, SELA emerged as a valid regional co-operation instrument to facilitate reaching common objectives. This was, is and should continue to be this organisation's principal orientation.

The Latin American and Caribbean region has come a long way since the mid-seventies when SELA was created. Some events can be considered positive achievements: countries' per capita income has risen; intra-regional and extra-regional trade have grown; subregional arrangements have become stronger; the region has added greater value to its basic products; several countries have diversified their products as well as the markets where they sell, to the extent that traditional markets are no longer the main markets; democracy has expanded, among other things. But just as we have these positive aspects, other old problems remain unresolved and there are also new ones to be dealt with. Old problems include the issue of wealth distribution and greater share of and better insertion in world markets. The second category includes: immense technological development; the challenges of globalisation, economic liberalisation and international competitiveness; regionalization processes, new forms of its presentation, or its new nature, and differences among countries, and there are new actors in the international scenario. It would be suicidal, or at least seriously incapacitating, to ignore the force of the business world, not recognise the contributions of civil society and not apply the advantages born of the revolution in terms of know-how.

This is the ambiance in which SELA operates.

On the 28th of October, the Latin American Council honoured me and granted upon me the delicate responsibility of becoming this organisation's Permanent Secretary for this next four-year term. This designation was unanimously supported by all those present at the meeting. I must admit that the ensuing acclamation overwhelmed me to the point that I felt the mandate to be much, much more than I had imagined. Those were moments of intense emotion for me, as I waited outside the room and heard the warm applause conveying the acclamation. Shortly after I was invited into the room where once again those present greeted me with their applause.

And I repeat, those moments filled with emotion were instant in which passion spoke. I would like them to remain recorded, as part of my initial words upon formally assuming my new position, because they form an essential part of the times that lie ahead of us. I am certain that these will certainly be marked by reason. But passion, too will play a large part.

My election is like SELA docking at a port in order to re-establish SELA. That in my view is why this marks the beginning of a new stage.

All of us took part in the work. And I emphasise the "all" because one cannot forget the exemplary manner in which the Permanent Secretariat and each of its staff members worked, as well as the systematic, patient and dedicated work of the Ad hoc Working Group, which diligently labored to shape SELA's new configuration, step by step. I had the honour of actively participating in this process, which I am tempted to admit may have probably influenced my being elected to this position. I assume this reality and the personal commitment it entails.

> "*Virtually since our countries' independance we have been talking of integration, but until now we have not established a vigorous institutional framework that can successfully carry out this endeavour.*"

I now proceed to make some very general considerations in order to give you an idea of the vision I have as I take on this responsibility. And once more, this is but a preliminary exercise.

I would like to begin by posing a question: Why do we insist that Latin America and the Caribbean is a single entity? And why is this view upheld so transparently in an organisation such as SELA, when this reality is so often questioned?

In effect, one comes across voices that are convinced that this reality is far from being achieved. I recently heard a famous Chilean painter by the name of Roberto Matta convincingly arguing so. Even though this affirmation is rather polemical, I do think bases exist for this statement in light of what we see daily. Virtually since our countries' independance we have been talking of integration, but until now we have not established a vigorous institutional framework that can successfully carry out this endeavour. And that is why the answer to my query is that Latin America and the Caribbean are a reality and already have a historical and cultural profile of their own. But, at the same time, it is also true that their unity and integration remain as yet an ideal, an objective to be reached, and which, in SELA's case, and I quote from Minister José Vicente Rangel's important address on the occasion of the recently held Latin American Council meeting, is the "house of Latin America and the Caribbean," shared by all its member states. The crystallisation of this objective is and will continue to be the Permanent Secretariat's most important mission. Our efforts will turn to this matter of strong institutional framework to launch and implement a serious project for Latin American and Caribbean integration. This will be one of our main tasks. And we will carry it out on the basis of reason, in other words, using the input made available through social sciences and accumulated experiences; but passion will also be a necessary element. So we will also act passionately, not only to spur minds to work but also our hearts to act. Thus, just as we are doing today, an endeavour will begin, vested with a human image, a pacific and participative approach, and we are all invited to take part without excluding anyone. An endeavour of this magnitude needs the work of every single one of us.

At least we are not starting from scratch, as they say. A look around us, tells us so. Let me start with SELA itself, the seed of our institutional framework, governed by a convention with the force of a treaty signed by 28 sovereign states. We also count on the initiatives of the Rio Group, currently in the process of broadening; the Latin American Parliament, which already includes directly elected members such as in the case of Venezuela; the Andean Development Corporation (CAF) and the Latin American Reserve Fund (FLAR), which too are expanding and are highly efficient and prestigious financial tools working toward integration; and ALADI, MERCOSUR, CAN, G-3, CARICOM and the ACS, that are indicators of important partial integration, each of which has its own institutional framework. And we cannot go without mentioning ECLAC and BID, whose services are so important for the region. SELA will work intensively for co-operation among all institutions in order to contribute to building their potentials and rendering them effective in bringing about integration.

“*SELA will work intensively for co-operation among all institutions in order to contribute to building their potentials and rendering them effective in bringing about integration.*”

This effort should be carried out in a new timeframe, one dominated by the globalisation which arouses both admiration and fear within us, which has lead to the creation of common endeavours in the different spheres of human activity: the economy, trade, finance, communication and education, to name but a few. These shared endeavours have different scopes and various degrees of depth. They can provide the basis for global, regional or national action.

This explains why one of the characteristics of our time is the coexistence of globalisation and regionalism. Both trends have been growing stronger and each conditions the possibilities for the other.

In our case, the Latin American and Caribbean region is viewed as one of the protagonists in the relation between globalisation and regionalism not only by Latin Americans and Caribbeans but also by other actors across the globe. It is now up to us to define the region's identity and find a coherent mode to insert ourselves into the world economy and to develop our regional, subregional and hemispheric relations.

These are the different scenarios in which we are required to work in the immediate future. In the sphere of trade, the Millennium Round forms an integral part of the phenomenon, which has also felt the impact of technological and scientific development worldwide. At these negotiations, we must face up to the challenge of taking advantage of the opportunities that come with this event and ensure that the international institutional framework allows us to do so, bestowing upon us the special treatment needed to promote development. And these negotiations, I might add, also require that we adopt positions dictated by pressing time schedules. SELA will devote special efforts to this matter in order to identify those areas of common interest to its Member States so that co-ordinated positions can be drawn up thus strengthening our negotiating capacity.

The countries of Latin America and the Caribbean share the World Trade Organisation's explicit objective of implementing international economic relations governed by rules and not by power relations. There is, however, an additional ingredient or condition that the region adds: that these rules mirror a sense of equity and not merely embody mechanical processes that end up legitimising relations based on power.

The actual imminence of moving forward with the FTAA negotiations, even though some aspects remain uncertain, makes it necessary for us to consider which issues need to be treated at the multilateral level and which ones need to be handled in a hemispheric setting, always bearing in mind the need to maintain and recover areas, to further our economic and social development policies. These areas are necessary. But even more important is that we know how to use them, how to take advantage of them. And only *we* can make this possible; no one else can make it happen for us. The capacity we have to co-ordinate policy, to strengthen the links, the bonds between Latin American and Caribbean countries and their regional integration schemes so that these do not crumble or fall apart as a result of multilateral or hemispheric commitments embodies a key aspect to ensure that the distinctive and undeniable identity of Latin America and the Caribbean lives on.

Our unity needs to be defined vis-à-vis other regions and cultures. But it also needs to be determined by ourselves on the basis of relations that we can establish between us as nations, as a people, and as human beings. Only solidarity and justice can prevent our identity from being adulterated: these two elements will ensure our survival and development and will draw our peoples together to defend the region as one. And this solidarity I speak of is not rhetorical. It needs to be seen in policy, laws, attitudes and positions that can no longer be postponed.

And the beneficiaries of these efforts must be remembered at all times, these are the Latin American and Caribbean people, the citizenry. Each and every one of us, and especially those who are weaker and abandoned. Our lives as a collective unit and as individuals only have meaning when seen from this perspective. This will fuel meaning into the lives of our youth and speaking truthfully, to people of all ages, people who are concerned, and also people with solid backgrounds and extensive preparation. In order to press forward with this endeavour, each and every one of us must assume our roles as social actors. In this scenario, SELA needs to establish relations with workers, business people, professionals, youth, the elderly, women, ethnic groups, and all those institutions that work with these groups. This is the only way that Latin America and the Caribbean can make itself known.

I view SELA as an instrument at the service of the Member States' vision for Latin America and the Caribbean. It is not an end in itself but a means to accomplish tasks defined by member states and that point towards a general course which I dare say is set on bringing about the common good of Latin America and the Caribbean. I will attempt, and I make this commitment, to do my best to reach for those interests which are seen from SELA as joint, shared interests. The decisive and necessary support of the Member States is of course important, particularly the support of all the accredited Ambassadors in Caracas, who are also my dear friends. Thus SELA, with renewed vigour, will voice the true interests and significant interests of our region.

I conclude this statement adding that the great challenge for Latin America and the Caribbean in the coming stage lies not in believing and in acting as though the end of history had been reached. It lies in believing and in acting in the setting in which Latin America and the Caribbean are truly found, and this is none other than at the beginning of a epoch, of a story that is about to begin marked by a new decade and a new century. Let us write this chapter of history together to build peace and the well being of all our citizens, through dialogue and co-operation with all the other large blocs of the planet that make up the global village.

The Havana Declaration

The following text was adopted by the Heads of State and Government participating in the IX Ibero American Summitt held in Havana, Cuba, on November 16, 1999.

Ibero America and the International Financial Situation in a Global Economy

1. We, the Heads of State and Government of the twenty one Ibero American countries meeting in Havana, Cuba, on November 16,1999, on the occasion of the IX Summit, discussed the main international issues, particularly those relating to the current international financial situation in a global economy, its implications for Ibero America's growth and development and measures to develop d apply strategies aimed at strengthening the international financial system so that it may actually and effectively contribute to a stable world economy and acknowledge the needs of developing countries.

2. In this Summit we reaffirm our governments' committment to strengthening and implementing the work of democratic institutions, political pluralism, the rule of law and respect for human rights and fundamental freedoms as well as the right to development. In our international relations we reaffirm our respect for the principles of sovereignty and non intervention, self- determination, the peaceful settlement of disputes and our refusal to resort, or threaten to resort to violence, as well as all peoples´right to freely build their political system in peace and with stability and justice. Likewise, we reassert our willingness to contribute to a just and participative system of international relations, in accordance with the principles of international cohabitation established in the United Nations Charter, the Universal Declaration of Human Rights and other international instruments.

3. As international cohabitation requires observance of the principles of international law, respect for the United Nations Charter, equality before the law and the national sovereignty of states, we, the Ibero American countries solemnly renew our commitment to these precepts. Consequently, again we firmly reject the unilateral or extra territorial application of national laws

or measures that violate international law and attempt to impose upon third countries another country's own laws and regulations. Such measures are in violation of the principles governing international cohabitation, weaken the multilateral system and run contrary to the spirit of cooperation and friendship that must prevail between our peoples. Within this context, we emphatically appeal to the United States of America to cease in its implementation of the Helms-Burton Law, in accordance with the relevant resolutions approved by the United Nations´General Assembly.

4. While reaffirming our Oporto Meeting´s analysis of the distinctive features of the globalization process, we acknowledge the opportunities that it offers for the development and well being of our peoples and the enormous challenges that it entails, which have led us to carry out efforts aimed at obtaining the greatest possible benefits given the world economy's new characteristics. Hence, we deem it necessary, among other measures, to strengthen responsible, appropriate and prudent macroeconomic policies aimed at insuring growth, together with social policies aimed at lessening inequality, insuring access to globalization's opportunities for the most vulnerable sectors and erasing the gap between developed and developing countries and the higher and lower income sectors of the population. Within this context, social justice, the improvement of societies´standard of living, the strengthening of social security networks and support policies to protect the poorer and most vulnerable sectors of the population and the widening of international cooperation under equal conditions as a way to support Ibero America´s less developed countries and regions are our governments´main objectives.

5. We acknowledge that even though our countries' economic performance during the 1990´s was better that that of the 1980´s, during the last two years the world economy has slowed down as a result of the international financial crisis. Nevertheless, the adoption of consistent monetary and fiscal policies and programs has allowed for a better and more opportune capacity to react in order to lessen the negative effects stemming from imbalances within the international financial system.

6. Because of the extraordinary expansion of international financial markets and the increase in the number of financial agents and instruments, countries´financial markets have become increasingly linked due, mainly, to the volume and swift

movement of short-term capital flows. These have become a potentially destabilizing factor for economies throughout the world. Also, this situation has not been accompanied by an appropriate development of national and international institutions nor of the mechanisms needed to regulate and supervise the banking sector.

7. The sudden massive capital flights and the decrease in capital flows to developing countries caused by the recent financial crisis have been accompanied by an increase in interest rates and, thus more onerous internal and external loans. This, together with other factors, contributed to a slowing down of world economy.

8. Because of their magnitude, frequency and potential transmission mechanisms within a globalized economy, these international financial crises have severely affected the most vulnerable groups of society, the smaller and weaker economies and those countries with very serious economic imbalances. They have even spread to countries, including some Ibero American countries that carried out or are currently implementing structural reforms and adopting adequate fiscal, monetary and foreign exchange policies.

9. We deem it necessary for governments and international financial organizations to make effective their commitment to work towards a more orderly financial system aimed at insuring economic growth and international financial stability, as well at increasing investors´confidence.

10. The tendency towards low raw materials prices, the persistence of protectionist practices, the decrease, in global terms, in Official Development Assistance flows and the financial weight of foreign debt obligations create unfavorable conditions for many of the region's economies and erode our countries´capacity to react and recover from international financial unbalances. Given this situation, and in order to offset such unbalances, some countries have had to adopt restrictive financial and fiscal policies which have imposed a heavy burden on society and, in some cases, have had serious social implication.

11. In view of the above considerations:

I) We reassert the validity of the Oporto Summit Declaration as well as that pertaining to the international financial situation and reiterate its timeliness and the need to put it into effect urgently. In this regard, once again we request the international financional bodies, the United Nations system and the G-8 to consider the evaluations and proposals included in this document when analyzing these phenomena.

II) We commit ourselves to carry out long range efforts aimed at structuring a coherent and effective global, regional and national strategy to deal with the current and probable unbalances of world economy. Moreover, we agree that in the building of a just, equitable and solidary global order based on international law, the transparent and democratic functioning of multilateral organizations and institutions and the full participation of all member states constitutes an essential variable.

III) In view of the seriousness and recurrent nature of the financial crisis, its profound effect on the world economy and negative implications for the promotion and administration of development plans in the Ibero American countries, we reassert the commitment we entered upon during the Europe Union-Latin America and the Caribbean Summit to actively participate in the designing of a new international financial architecture that may allow our countries to benefit from the integration of capital markets and to lessen its risks. In this regard, it is important that such reforms include greater participation by developing countries in financial institutions' decision making process, in accordance with such countries' increasing role in financial, trade and investment flows and the significant effect that such reforms would have on them.

IV) Likewise, we support the United Nations' General Assembly's request that the Secretary General, in close cooperation with the relevant bodies, particularly the United Nations Conference on Trade and Development (UNCTAD), within the framework of their respective mandates and in consultation with the Bretton Woods institutions carry out a with broad and long range analysis of the current tendencies of world financial flows and ways to improve the capacity for early warning, prevention and reaction to financial crisis and their spread, keeping in mind the problems inherent to development and the need to protect the more vulnerable countries and social groups through access to favorable financing conditions.

V) We acknowledge the importance of strengthening the exchange of transparent and homogeneous information, as well as support among states and the assistance of international financial institutions to promote markets' stability and transparency.

VI) We attach considerable importance to the establishment of the Euro, which may contribute to the stability of international exchange and financial markets by creating new opportunities to foster the European Community's links with other countries, particularly in Latin America and the Caribbean.

VII) We reaffirm our belief in development as a significant objective of the multilateral trading system. To this effect, we shall continue to foster the strengthening of multilateralism, the promotion of international solidarity, special and preferential treatment, free, non discriminatory and balanced international trade and the process of cooperation and integration that may contribute to lessening the gap between development levels. We also reaffirm our decision to push, during the next Ministerial Meeting of the World Trade Organization, for a new round of comprehensive trade negotiations including all sectors, aimed at reducing tariff and non tariff barriers to trade in goods and services and at establishing a favorable climate for investments. Within this context, we reject any political, economic, social or environmental conditionality.

VIII) Likewise, we plead for a just and durable solution to our economies' foreign debt problem. Within this context, we support those countries of the Ibero American Community that have undertaken structural adjustment and reform policies while facing high foreign debt servicing obligations. Thus, we support their efforts to speed up access to the benefits envisioned in the Initiative for Highly Indebted Poor Countries, as well as bilateral negotiations aimed at lessening those countries' debt burden.

IX) In view of the Republic of Ecuador's delicate and complex economic situation, caused mainly by last year's El Niño phenomenon and the recent international financial crises which have made it impossible to meet foreign debt servicing payments, we express our solidarity and appreciation for its government's responsible efforts to put the economy on a sound footing and to restructure its foreign debt with the international community of creditors in a way that may allow it to meet its foreign obligations in accordance with its real payment capacity while at the same time addressing its population's pressing social needs.

X) Moreover, we reaffirm the need to continue stimulating foreign direct investment within an adequate legal framework, as an important component of international financial flows and national development strategies. Within this context, we deem it useful to begin studies aimed at evaluating the signing of an Ibero- American investment promotion and protection agreement.

XI) We agree that to the extent that we succeed in securing technological progress and improve human resources' training, efforts aimed at increasing our peoples' well being within the framework of growing globalization will be strengthened. To this end, we consider that collaboration and cooperation between our countries and international bodies is of great significance.

XII) In the area of natural resources and the environment, some progress has been achieved at the global and regional level. However, we are profoundly troubled by their continuous deterioration and by persistent obstacles to a sustainable development encompassing its social and economic aspects, in compliance with Agenda 21. In this regard, we reaffirm our commitment to policies aimed at achieving sustainable development and removing all obstacles to this process. Thus, we deem the integration of policies that may allow us to anticipate its application at the three levels of sustainability indispensable. In accordance to the above, developed countries, cooperation organizations and international financial institutions must strengthen, in their technology and financial resources transfers operations, such integration of policies and support the transition to development.

XIII) Globalization has contributed to spreading nations' cultural diversity; nevertheless it also represents a challenge for the consolidation and development of Ibero American culture. The Ibero American countries possess a common historical heritage and cultural identity, which favor our countries' concerted action within the global economy framework. This must contribute to improve our access to globalization's advantages and our capacity to face its challenges with greater probabilities of success.

XIV) Based on the implementation of responsible, effective and long-range national economic and financial policies, our Ibero American states will continue to play an active role vis-à-vis the risks associated with international economic and financial unbalances. In this regard, we reaffirm the need to strengthen the discipline and transparency of banks' supervision mechanisms; adopt healthy economic and financial policies; promote the increase of internal savings; and continue implementing structural changes to our economies, in accordance with our own policies and interests.

XV) We reaffirm our states' central role in the adoption of active policies aimed at promoting human development and equity; preserve our peoples' identity and culture; grant priority to education, health and environment protection policies and policies aimed at abolishing inequality and social exclusion wherever they may be.

XVI) In a world whose current challenges render the strengthening of multilateralism, cooperation and coordination between the diverse regional processes ever more necessary, we reaffirm our decision to consolidate the Ibero American mechanism as a tool for dialogue and political coordination between our countries and emphasize the need to continue to promote integration in Ibero America as a way of insuring a more dynamic and competitive insertion in a globalized world and making strides in the solving of complex social , economic, technological and environmental problems requiring concerted efforts. Likewise, we underline the importance of regional and sub-regional institutions and organizations to face the risk of greater unbalances in the world economy and contribute to its stability.

12. Within the context of the current international financial situation in a globalized economy and acknowledging the need for joint solutions to the world's main social and economic problems, the Ibero American community of nations promises to increase solidarity efforts at the international level. Likewise, it commits itself to expand and implement specific economic and social cooperation programs that may contribute to our countries' development and to face the great challenges of the XXI Century.

Ibero American Cooperation

The Heads of State and Government of the Ibero American countries confirm with satisfaction the work carried out to comply with the VIII Ibero American Summit's decision to prepare and agree upon the Protocol and Statutes of the

Secretariat for Ibero American Cooperation, SECIB, which were undersigned by the Ministers of Foreign Affairs on November 15,1999, in Havana, Cuba.

We grant our formal approval to the creation of the Secretariat, as we agreed in Oporto, and to locating its headquarters in Madrid, Spain. We warmly thank the Government of Spain for receiving the SECIB's headquarters. At the same time, we voice our satisfaction for the appointment of Ambassador Jorge Alberto Lozoya as Secretary for Ibero American Cooperation, following Mexico's proposal and its full support by all member states.

We are thankful for La Rábida's offer and acknowledge as the venue for meetings of the Ibero American community of nations. We estimate that the work of the Secretariat for Ibero American Cooperation will insure a permanent follow up, greater control over and better coordination of cooperation efforts between our countries. This will strengthen the ties between the officials responsible for Ibero American Cooperation and improve mechanisms for the launching and development of projects and the search for the financial solutions they may require.

The Heads of State and Government reaffirm our support for the progressive development of Ibero American cooperation, its diversification and strengthening, so that it may become one of the most important issues in the work of future Ibero American summits. This will allow us to make progress towards the establishment, maintenance and strengthening of links between the main sectors of our countries' economic and social development, bolstering our Ibero American identity.

This cooperation implies an annual investment of over $30 million to carry out 15 programs and projects:

- Ibero American Educational television (TEIB)

- Cooperation Program for the Development of Doctoral Programs and the Guiding of Doctoral Theses (BECAS MUTIS)
- Bais Adult Alphabetization Program- Scientific and Technological Cooperation Program (CYTED)

- Fund for the Development of the Indigenous Population of Latin America and the Caribbean (Indigenous Fund)

- Cooperation Program for the Development of National Systems for the Evaluation of the Quality of Education

- Ibero American Cooperation Program for the Common Design of Professional Training (IBERFOP)

- Ibero American Program of Modernization of Education's Administrators (IBERMADE)

- Ibero American Diplomatic Archives Net (RADI)

- Audio Visual Program to support the establishment of the Ibero American Visual Space (IBERMEDIA)

- Ibero American Center for Urban Startegic Development (CIDEU)

- Support Program for the Development of Ibero American Archives (ADAI)

- Ibero American Inter Institutional Cooperation Program in Small and Medium Sized Enterprises (IBERPYME)

- Regional Action Program for the Development of South in Latin America (PRADJAL) - Ibero American Quality Control Foundation (FUNDIBQ).

We express our satisfaction for the presentation, at this IX Ibero American Summit, of the following cooperation initiatives: the establishment of a Chair for Ibero American History; a Workshop on Government's Efficiency and Integrity: a Strategy to Face Corruption; the Ibero American Prize for Public Administration Quality; the Ibero American Program of Interactive Training for Public Officials; Ibero American Cooperation for Patents' International Search; Participative Communication in Irrigation and Drainage; the Right to Name and Nationality; Children's' Civil record; Early Education ; Mothers' Mortality Rate; Participative surveillance of the implementation of the Convention on Children's' Rights and comprehensive support to families as the primary nucleus of socialization.

It is our hope that, in accordance with the Bariloche Agreement, those initiatives may soon become projects and begin to be executed with the contribution of the Ibero American Cooperation Secretariat.

Culture represents one of the basic tenants of our cooperation and in this regard, we congratulate ourselves for the progress made in the carrying out of cultural projects and for activities such as the Association of National Libraries of Ibero American Countries' Program (ABINIA), activities aimed at promoting the free circulation of books within the Ibero American community and new initiatives such as the establishment of an Ibero American Network of Theaters and Concert Halls, cooperation in the public libraries' area and the protection of copyrights and similar rights. These activities will contribute to widening and diversifying our own cultural space, to the benefit of our people and cultural industries.

We congratulate ourselves for the creation of the Ibero American Civil Defense and Protection Association and we highlight the exemplary work these entities are carrying to protect peoples' safety, their goods and the environment and we invite them to persevere in the development of Ibero American cooperation through the existing mechanisms of the Ibero American Conference.

We acknowledge the work carried out by the Ibero American Foundation for Quality Control, which have made possible the design of the Ibero American Model of Administration Excellency, define the basis for the Ibero American Quality Prize and draw up a Global Program for Training in the Administration of Change.

We highlight the launching of the Ibero American Quality Prize, which will be bestowed on the occasion of the X Ibero American Summit to be held in Panama in the year 2000.

We welcome with great interest the inclusion once again in the Ibero American agenda of the issue of Infancy and Adolescence and we reaffirm our commitment to continue to develop national policies in favor of children and adolescents.

We congratulate ourselves for the results of the debates carried out at the Ministerial Meetings held within the framework of this IX Ibero American Summit and we make o ours the conclusions, declarations and decisions of the following Sectoral meetings:

- V Ibero American Meeting of Ministers and Officials Responsible for Policies Concerning Women, which examined "the

Global Economic Crisis and Women's Human Rights". The meeting was held on May 3 and 4, 1999 in Lisbon, Portugal.

- V Ibero American Forum of Ministers of Agriculture on "Outlook of Ibero American Agriculture for the New Millenium", held on May 15-17,1999 in La Havana, Cuba.

- Meeting of Ibero American Ministers of Culture on "The Ibero American Cultural Space and a Globalized World", Havana, Cuba, June 10 and 11, 1999.
- IX Ibero American Meeting of Ministers for Public Administration and the Reform of the State, La Havana, Cuba, June 24-25, 1999.

- II Ibero American Meeting of Ministers of the Economy and Finance on "the Impact of the World Economic Crisis on Ibero America and Strategies to Overcome It", La Havana, Cuba, September 2-3, 1999.

- IV Ibero American Meeting of Ministers for Public Works and Transportation on "Ibero America and the Caribbean: an Estimate of Transportation and its Infrastructure on the Threshold of the XXI Century", La Havana, Cuba, September 21-22, 1999.

- VII Scientific Conference of the Ibero American Program on Science and Technology for Development and Meeting of Ibero American Science And Technology Ministers and High Officials on " Sustainable Development and the Transference of Technology in a Global Economy", La Havana, Cuba, September 23-24, 1999.

- VIII Meeting of Ministers and Highest Officials for Housing and Urbanism in Latin America and the Caribbean and the IV Ibero American Forum of Ministers and Highest Officials of the Urban Development and Housing Sector on "Ibero America and the Caribbean: Towards a sustainable Development of Human Settlements", La Havana, Cuba, October 13015,1999.

- I Meeting of Ibero America's Ministers of Health on "The Effects of Globalization on the Reform of the Health Sector", La Havana, Cuba, October 18-19, 1999.

- Ibero American Conference of High Officials in Charge of Children and Adolescents in a Globalized World with Rights, La Havana, Cuba, November 8-9, 1999. Moreover, we celebrate the organization of several seminars, fora and other initiatives carried out within the framework of the IX Ibero American Summit, which contributed to widening and strengthening the links between our peoples. We are referring, in particular, to the following

- The Conference of Directors of centers for the Study of Ibero American Defense, Madrid, Spain, October 5-8, 1999.

- The V International Congress on Aeronautical and Space History, Madrid, Spain, October 11, 1999.

- The International Meeting of Lawyers on Globalization, the Law and the Economic Crisis, La Havana, Cuba, October 27-29, 1999.

- The Congress of the Latin American Federation of Journalists, La Havana, Cuba, November 11 and 12, 1999.

- The Ibero American Communications Forum, La Havana, Cuba, November 13, 1999.

- The VI Ibero American Meeting of Journalists, La Havana, Cuba, November 13, 1999. Acknowledging the importance of these fora, we deem it convenient to continue celebrating such encounters, in coordination with other sectoral fora that may be held within the region.

We thank His Excellency the President of the Republic of Cuba, Dr. Fidel Castro Ruz, as well as the people of Cuba, for their warm hospitality. Likewise, we thank the Commission for the organization of the IX Ibero American Summit of Heads of State and Government and particularly the Pro Tempore Secretariat for their work and organization of this Summit. We summon all Heads of State and Government of the Ibero American countries for the X Summit to be held in Panama in the year 2000.

A "Positive Agenda" for Developing Countries in Light of the Millennium Round

1. UNCTAD began to stress the need for a "positive agenda" for developing countries in multilateral trade negotiations immediately after the experience of the first WTO Ministerial Conference in Singapore (December 1996). It was based on the perception that in the preparatory process leading up to the Conference, developing countries had been concentrating almost entirely on opposing the inclusion of certain issues in the V~TO work programme, e.g. labour rights and investment, without formulating proposals or counterproposals for action on issues of interest to them. As a result, they found themselves, having to accept results in areas of interest primarily to developed countries, i.e. the ITA, financial services and basic telecommunications services without obtaining reciprocal commitments in their favour in areas of primary interest to them such as agriculture, textiles and clothing, and movement of natural persons. The Uruguay Round had also demonstrated that where a group of developing countries could put forward and maintain consistent proposals for trade liberalization, they could succeed in blocking less ambitious results, (such as the action of the Latin American members of the Cairns Group at Montr6al and Brussels, as well as the group of developing countries that placed clear proposals on the table for the structure of the GATS agreement and the inclusion of the movement of natural persons on the definition of trade in services). The thrust of the positive agenda initiative was thus that developing countries should make an unprecedented effort to ensure that their interests would be taken up in any future multilateral trade negotiations so as to make them a truly "Development Round". As a first step, it meant that they would submit detailed, technically sound proposals in the preparatory process for the Third WTO Ministerial Conference, and that UNCTAD should assist them in this endeavour.

2. The initial step in this process was the organization of two Ad Hoc Expert Group meetings under the responsibility of the

Secretary General of UNCTAD to exchange views among international organizations and academic institutions both in developing and developed countries in order to identify the work that should be carried out to further the positive agenda objective. These meetings resulted in a wealth of ideas, which have been circulated in publications by UNCTAD.[1]

3. This work really began, however, when developing countries requested UNCTAD officials to assist them in drawing up and refining proposals for the future trade agenda. This work was further enhanced by the decision of the UN General Assembly to use financing from the "savings resulting from the improved overall cost-effectiveness" for this purpose~. Following the instructions of the UNGA, three UNCTAD interregional workshops on the Positive Agenda were organized, in Seoul, Korea (8-10 June 1999), Pretoria, South Africa (29 June-2 July 1999) and Boca Chica, Dominican Republic (24 August 1999). Participants in these workshops included government officials (in their personal capacities), academics, trade consultants and practitioners from developed and developing countries, and members of UNCTAD secretariat and other international and regional organizations, including the WTO secretariat. UNCTAD also organized a high-level workshop for Least Developed Countries in Sun City, South Africa (21-25 June 1999). This workshop resulted in proposals agreed by LDCs covering all substantive areas in the WTO preparatory process.[3]

4. A variety of ideas have emerged from the examination of the proposals and the exchanges of views in the workshops and informal meetings.The following paragraphs summarize some of the main ideas which have emerged to date in the positive agenda process.

I. The Third WTO Ministerial Conference and a new "Trade Round"

5. The preparatory process pursued in the WTO General Council since September 1998 is aimed at defining WTO's future work programme, including further trade liberalization objectives, and prepare recommendations to the WTO Third Ministerial Conference to be held in Seattle from 30 November to 3 December 1999. As stated in the Geneva Ministerial Declaration (May 1998)[4], the preparatory work has been centred on several areas: (a) issues and proposals relating to

the implementation of the WTO Agreements; (b) issues and proposals relating to already mandated negotiations on agriculture and services and "built-in agenda" in other areas; (c) issues and proposals relating to the follow-up to the High-Level Meeting on Least-Developed Countries (1997); (d) issues and proposals relating to other possible work on the basis of programme initiated at Singapore Ministerial Conference such as "new issues` and (e) any other matters concerning multilateral trade relations of WTO members. Additional inputs to the preparatory process was expected from the separate work programme on electronic commerce and on issues where there is expectation that decisions or agreements could be reached at a time of Seattle Ministerial Conference (the so-called "deliverables")[5]. The latter category may, inter alia, include ministerial decisions regarding: (a) duty-free access for products exported by the least developed countries; (b) coherence of global economic policy-making, i.e. coordination of activities between the WTO, Breton Woods institutions, UNCTAD, UNDP and other international organizations; (c) transparency in government procurement (d) decisions with respect to matters where outstanding deadlines have not been met (see paragraphs on Implementation below) , or where decisions are awaited, e.g. extension of moratorium on non-violation cases under the TREPs Agreement. African countries have recently set out a list of issues on which they consider that decisions should be taken at Seattle.

6. As of 29 September 1999, 196 proposals had been submitted in the WTO preparatory process in more than 20 subject areas, of which more than 47% were coming from developing countries (including those proposals which developing countries submitted jointly with several developed WTO members). The greatest number of proposals were in the following subject areas: Agriculture - 36 proposals (11 from developing countries); Services - 22 proposals (12 from developing countries); Industrial products - 14 proposals (2 from developing countries); TRIPs - 15 proposals (8 from developing countries); and 'New issues'[6] - 29 proposals (9 from developing countries).

7. Many WTO members have expressed their support for launching a ne W- round of multilateral trade negotiations at the Seattle Ministerial Conference. In particular, the need for the

new round with a broad-based and balanced agenda to conclude within a three-year timeframe was agreed by developed countries.[7] Some developed and developing countries have also adopted the same line by making a proposal to launch a comprehensive new round of multilateral trade negotiations.[8] The main argument of the proponents for launching the new round was to keep momentwn of trade liberalization against protectionist pressures which were becoming stronger around the world, as well as providing the possibility for trade offs that.would facilitate concessions for different participants, including developing countries. Among the major trading countries, the European Union was the main proponent of a major "Millennium" Round[9]. The United States; on the other hand, was hindered from taking major initiatives by the failure of the President to obtain "fast track" legislation (or even legislation setting out negotiating objectives) from Congress, and has, thus, tailored its proposals to conform to its residual negotiating authority.

8. However, some developing countries considered that WTO work should concentrate on the full implementation of the Uruguay Round results and the "built-in agenda" which foresaw new negotiations on agriculture and trade in services, and reviews of several Multilateral Trade Agreements (NffAs) which could give rise to negotiations. These countries indicated that there was no consensus on structuring the future WTO work programme as another "round"[10]. Other matters of priority for many developing countries were, among others, (a) the implementation of special and differential treatment in their favour as envisaged in various WTO agreements; and (b) correction of imbalances in several WTO Agreements, including on Subsidies and Countervailing Measures, Anti-Dumping, TRIPs and TRIMS which have major implications for development policies and/or export interests of developing countries.

II. Objectives of the Negotiations

9. Any Ministerial declaration should contain a statement of the "problematique" facing developing countries that would have to be addressed in future negotiations, a "diagnosis" of the overall problem which the negotiations should seek to correct. Otherwise the negotiations will be conducted on the assumption that liberalization of world trade and the tighten-

ing and extension of multilateral trade disciplines into new areas is an end to itself. This is where the work leading up to UNCTAD X becomes directly relevant to the WTO preparatory process. The diagnosis being conducted by the G77 for UNCTAD X should find its way into the Seattle Ministerial Declaration.

"Diagnosis"

Financial vulnerability, including persistent balance-of-payment problems and extremely high external indebtedness, as well as narrow exportpotential and high dependence on commoditiesfor trade, production and employment and lack of access to technology and information networks and distribution channels remain major obstacles for many developing counties to integrate successfully in the multilateral trading system and benefit from trade liberalizadoiL Developing country firms often confront a world market dominated by TNCs, and by developed country media. As a result, many developing countries have not been able to benefitftom the new trading opportunities offered by the WAs. Furthermore, major imbalances in the balance of rights and obligations exist in certain multilateral trade agreements, as well as in market access and rule-making areas which may erode their confidence in the multilateral trading system.

Objectives:

1. The implementation of the rules and commitments agreed to during the Uruguay Round, as enshrined the Marrakesh Final A c4 especially those in favour of developing countries.

2. The launching of the negotiations on trade in services under ArticleXIX offhe GA TS and the continuation of the process of reform of trade in agriculture as provided under Article 20 of the Agreement on Agriculture, and the completion of the various reviews of provisions of the Multilateral Trade Agreements (MTAs) as mandated by the Agreements themselves,

3. Action in favour of the least developed countries (LDCs).

4. Action to advance accessions to the WTO.

5. Measures to improve coherence in economicpolicy-making between the WTO and other international organizations.

6. Reaching consensus on thefuture direction of the workprogramme established at the first and second Ministerial Conferences,

7. New initiatives aimed at liberalizing world trade and adapting the multilateral trading system so enhance its support of the developmentprocess.

III. General Principles Governing Negotiations

10. In particular, efforts to correct this situation in multilateral trade negotiations should seek substantial liberalization of trade in a balanced manner covering all products, services sectors and modes of supply of export interest to developing countries. There should be "umbrella" negotiating groups which would conduct overviews of the progress in specific areas of the negotiations with respect to progress toward these general goals. Such a negotiating group on the Transfer of Technology has been suggested, to propose approaches in negotiations in various areas that would correct the current trend toward reduced access to technology for developing country firms arising primarily from the privatisation of R&D in the developed countries[11].

11. The state of implementation of many S&D provisions is a source of deep concern to many developing countries, in many cases, this is due to the fact that such provision are phrased in vague, "best endeavou? language. All special and differential provisions should be translated into concrete benefits for developing countries. The concept of special and differential treatment should be reconfirmed and closely adapted to the development policies of developing countries to ensure enhanced coherence between trade and development policies, as well as to the realities of globalization. They should take into account the changing methods in which international trade is actually conducted and attempt to correct the handicaps faced by developing country firms in competing in such trade, by modifying the MTAs where necessky. All relevant provisions of the MTAs could be reviewed. The objective shall be to reach agreements on all these issues at an early stage of negotiations.

12. Many developing countries are having considerable difficulty in fully complying with their obligations upon the expiry- of

the transitional periods, transitional periods should be extended for a length of time that would reflect the availability to developing countries of the necessary resources to implement these various agreements. If new negotiations are launched, they should include a "peace clause" so that developing countries could not be challenged under the dispute settlement mechanisms while the negotiations were in progress. This would preempt a situation in which developing countries would find themselves negotiating under the duress of frequent resort to the dispute settlement mechanism against them. As in previous negotiations, a "standstilP clause should apply, such standstill should apply to all market access conditions, including GSP and other preferential agreements. Developed countries should make a clear indication at Seattle that they are committed to meaningful trade liberalization in areas of interest to developing countries, including tariffs, agricultural subsidies, anti-dumping measures, etc.

13. Credit to developing countries for autonomous trade liberalization measures should be a general principle governing negotiations, in that the binding of liberalization undertaken since 1 January 1995 should be recognized as a concession on the part of developing countries. This principle, articulated in GATS Article XIX:3, should apply across-the-board.

14. The experience with the Uruguay Round implementation has clearly demonstrated that it is imperative to address administrative and other costs of implementing any Multilateral Trade Agreements at national level 13 as an integral part of negotiations', if only developing countries are expected to fully implement them.

15. There should be a reconfirmation of the commitment to devote special attention to the problems faced by the least-developed countries, and measures to prevent their marginalization in world trade. The Seattle Conference should result in a decision to establish schedules under GATT Article H to extend bound, duty free treatment in their favour by developed countries, and developing countries in their position to do so. This should be accompanied by appropriate flexibility in the rules of origin to enable LDCs to effectively benefit. The specific problems of the small vulnerable developing economies were recognized in the 1998 Geneva

Ministerial Declaration. These should be addressed by identifying the specific concerns of these countries under the various MTAs and formulating proposals for action.

16. There seems to be growing support for the idea of a "single undertakinj as sectoral or partial approaches are seen as-likely to result in developing country issues being postponed or ignored. Some developing countries have stated that they will not participate in sectoral negotiations. However, it is also recognized that the "single undertakinj does not automatically ensure a balance favourable to developing countries. The possibility of "early harvests" which, to a certain extent, qualifies the "single undertaking" approach, is gathering support in developing countries in that results should be achieved on the implementation and-built-in agenda issues before initiating, or at least before completing, negotiations in other areas.

17.Some of the nervousness of developing countries with respect to the "single undertakinj results from their experience of the final stages of the Uruguay Round, where they were faced with a take-it-or-leave-it situation. It should be recalled that the developed countries had decided to withdraw from the GATT to set up the WTO (originally MTO - Multilateral Trade Organization) to avoid the necessity of amending the GATT. Developing countries were thus forced to accept all the Uruguay Round MTAs, however obviously such as situation will not arise in the future, a single undertaking will have to be accepted by consensus or vote as provided in Articles IX and X of the WTO Agreement.

"General Principles Governing Negotiations":

i. Conduct of the negotiations in afully transparent and manageable manner to ensure the effective participation of all WTO members,

ii. Single undertaking. The launch, conduct and conclusion of the negotiations should be aimed at a single undertaking. The results of the negotiations shall be adopted in their entirety and applied to all WTO Members,

iii. Principle of differential and more favourable treatmentfor developing countries should be fully reconfirme4 converted into concrete benefits and closely adapted to development policies of developing countries. Considering the costs of implementing the MTAs at the national level should be made an integralpart of negotiations,.

iv. Particular situation of the least developed counties should be taken into account,

v. Special consideration should be given to the case of small and vulnerable economies

vi. Recognition of autonomous trade liberalization measures andprovision of modalitiesfor crediting developing countries-fior such measure£,Winding of liberalization undertaken since 1 January 1995 should be recognized as a concession on the part of developing countries;

vii. Standstill: Commencing immediately and continuing until theformal completion of the negotiations, participants should agree not to take any trade restrictive or distorting measures inconsistent with the provisions of the WTO Agreements and not to take any trade measures in such a manner as to improve- their negotiating positions. Developed countries should additionally agree that they will exercise due restraint in taking any trade restrictive or distorting measure in the legitimate exercise of their rights under the MTAs. Such standstill should apply to all market access conditions, including the GSP and other preferential arrangements. This should be subject to multilateral surveillance,

viii."Peace ciause"should be agreed that would ensure that developing countries would not be challenged under the dispute settlement mechanisms while the negotiations are in progress.

IV. Implementation

18. There are a number of areas where the deadline for action set in the Uruguay Round agreements have not been met. These include, for example, the negotiation of an arrangement to limit export credits in agriculture, a GATS emergency safeguard clause, the completion of negotiations on rules of origin and anti-circumvention measures, etc. These will have to be addressed by the Ministerial Conference.

19. Where S&D treatment has been expressed in terms of best endeavour clauses, the Seattle Ministerial Conference will have to assess the extent to which the expected benefits have actually materialized in practice. These include provisions of Article IV of GATS, the transfer of technology provisions of the TRIPs and Sanitary and Phyto-Sanitary Measures (SPSM).

V. Built-in Agenda

i. Agriculture

20. The continuation of the reform process aims at the long-term objective to establish a fair and market-oriented agricultural trading system, through substantial and progressive reductions in support and protection in the agricultural sector. The targeted outcome of this round of negotiations on agriculture, while agreeing on the continuation of the reform process beyond this round, will be to integrate the agricultural sector with the rules and principles of GATT 1994, taking into account the need of the Net Food Importing Developing Countries and the need for S & D treatment by developing countries with large population in the agricultural sector as well as small and vulnerable economies, including small island countries.

21. In realizing the long-term objective, the negotiations of further reduction commitments will encompass the three major reform areas resulted from the Uruguay Round Agreement on Agriculture, i.e. market access, domestic support and export competition, and will be made from the binding commitments made under the Agreement, supplemented by additional disciplines.

22. Negotiating initiatives in agriculture will logically follow the major reform areas within the structure of the WTO Agreement on Agriculture. Among the options to be considered are:

Market access

– Deep cuts to all tariffs, with an application of an appropriate tariff reduction approach which curtails tariff peaks and eliminates tariff escalation, as well as credits autonomous agricultural liberalization undertaken by developing countries; to provide for a greater improvement of opportunities and terms of access for agricultural products of particular interest to the members, including the grant of duty-free and quota-free access to all primary and processed agricultural exports of LDCs and NFIDCs;

- reductions in complexity of the agricultural tariff structure, including a conversion of non-*ad-valorem* rates to *ad-valorem* rates;

- progressive increases in the import quantities under tariff rate quotas and concomitant reductions in tariff rates within quotas

- establishment of a guideline with regard to the administration of tariff rate quota system which will ensure trading opportunities to all members in a equitable manner;

- total elimination of the Special Safeguard (SSG) provisions by developed countries with the possibility of their use by developing countries to protect the livelihood of subsistence farmers.

Export subsidies

- Complete elimination and prohibition of all forms of export subsidies within the time frame of the next reform process, thus bringing export subsidies in agriculture under the general rules of the Agreement on Subsidies and Countervailing Measures;

- strengthening the rules to prevent all forms of circumvention of export subsidy commitments, particularly through the establishment of effective international disciplines concerning export credits, export credit guarantees and export insurance programmes;

- establishment of disciplines concerning export restrictions and binding of export taxes.

Domestic support

- Substantial progressive reductions ofall forms of trade-distorting domestic support;

- nevertheless, flexibility should be provided to developing countries in the use of domestic support measures that are linked to their developmental objectives (e.g. improvement in agricultural production for the purpose of food security, securing employment to rural population, support to small-scale resource-poor farmers, etc.), through, *inter alia,* an increase in the *de minimis* limit applicable to developing countries; it should be noted that these concerns do not correspond to those of the developed countries as embodied in the "multi-functionality" concept which aims using trade measures to protect the income of a very small rural population in some wealthy countries;

- review of the criteria of exempt measures given in Annex 2 (Green Box) for it to reflect specific needs and conditions of developing countries, including full incorporation in it of those exempt measures specified in Article 6.2 of the Agreement;

- operational modification of the methods of calculation of the Aggregate Measurement of Support.

LDCs and Net-Food Importing Countries

23. The Marrakesh Ministerial Decision on Measures Concerning Possib le Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries should be revised during the negotiations, with a view to incorporating concrete, operational and contractual measures in the Decision that are both effective and responsive to special needs of LDCs and NFIDCs that may be arising from the continuation of the reform process. It has been noted that the export subsidy regimes of developed countries do not do much to alleviate the problems of the NFIDCs as their mechanisms are such that export subsidies are not generally provided when world prices are high- If such concrete measures, including financial provisions were established, NFIDCs could support the abolition of export subsidies.

Other issues

24. Multilateral approaches should be adopted to address both new issues and those overlapping with other Agreements and provisions of GATT 1994 (for example, the Agreements

of SPS, TBT and TRIPs), especially regarding new areas such as the use of genetically modified organisms.

(ii) Services

25. As provided in Article XIX, the negotiations, aimed at achieving a progressively higher level of liberalization of trade in services, should be conducted within the existing architecture of the GATS. The negotiations shall take place with a view to promoting the interests of all participants on a mutually advantageous basis, and to securing an overall balance of rights and obligations, and with due respect for national policy objectives and the level of development of individual members. There should be appropriate flexibility for individual developing country Members for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their development situation and, when making access to their markets available attaching to such access conditions aimed at achieving the objectives referred to in Article IV.

26. The negotiations should aim at the effective achievement of the objectives of GATS Article IV and to reduce the current imbalance in commitments by focussing on the liberalization of market access in sectors and modes of supply of export interest to developing countries. A monitoring and notification mechanism should be established to ensure effective implementation of Article IV. Given that the market access commitments for mode 4 are far more restrictive than forany other mode of supply, a substantially higher level liberalization should be achieved in this mode of supply. Particular effort are needed to remove economic needs tests for specific categories of persons, and criteria should be developed for application of economic needs test to other categories of persons.

27. In recognition that most firms in developing countries do not have the capacity to take advantage of the opportunities provided by the GATS commitment, developed country Members should undertake specific commitments to strengthen developing countries' domestic services capacity and its efficiency and competitiveness, inter alia through greater access to technology and improved access to distribution channels and information networks, particularly to enable developing countries to take advantage of the opportunities

presented by electronic commerce, while ensuring its contribution to their development process.

28. Work should be continued on Article VL4 disciplines,- taking into particular account the right of members to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives and, given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right. These disciplines should not restrain developing countries in exercising policy flexibility for developing supply and export capacity.

29. Further work should be done on recognition under Article VII to ensure effective access of developing countries to mutual recognition agreements (MRAs) and active pursuit of equivalence. Existing ~s should be examined to ensure that such agreements do not have a trade distorting impact on developing countries.

30. Negotiations on emergency safeguard mechanism should be completed prior to the adoption of the results of the next round. Negotiations on subsidies and government procurement should take particular account of the trade distorting impact of subsidies granted by developed countries on developing countries' services exports.

31. In view of difficulties resulting from abuse of dominant position of major service suppliers, Article IX should be strengthened to ensure control of abuse of dominant position through addressing specific private sector restrictive practices and establishing a notification requirement for restrictive business practices, specific provisions could be drawn up to address anti-competitive practices in services sectors of particular interest to developing countries (e.g. tourism, air transport).

32. The negotiations of specific commitments should be based on a request/ offer procedure, although it has been suggested that formula approaches could serve to lessen bilateral pressures. Formula approaches could be used for the irnplementation of Article IV. As provided in GATS Article XIM3, the negotiations should recognize and credit liberalization undertaken autonomously by members since the Uruguay Round

negotiations in that the binding of the schedules of commitments of such liberalization should be recognized as a contribution to the results of the negotiations.

33. Electronic commerce should be seen largely as a GATS issue, whose impact upon the commitments made under Mode 1 and the overall balance of rights and obligations would have to taken into account. It also greatly increases the relevance of the commitment in Article IV to provide access to information networks to developing countries.

(iii) TRIMs

34. Developing countries have difficulties in identifying their TRIMs and meeting-their obligation of eliminating all TRIMs notified under Article 5. 1, particularly the local content requirements. Thus, there is a need to extend the transitional period for all developing country members, including the least developed countries, until the end of the negotiations. Developing countries which did not notify TRIMs that are not in conformity with the Agreement should be enabled to notify such TRIMS during the negotiations.

35. Some developed countries have proposed that the list of prohibited TRIMs should be extended to cover measures which do not conflict with GATT obligations. The review under Article 9 of the TRIMs Agreement should recognize the role of performance requirements in building supply and export capacity in developing countries and that use of such TRIMs by developing countries should not be further restricted. The mandated review in the same Article provides that investment policy and competition policy should be considered in parallel. This review would take into account the findings of the Working Groups on Trade and Investment and Trade and Competition policy established in Singapore and focus on developmental needs and the necessary policy space for adoption of policies for developing countries.

36. The proponents of the negotiation of a multilateral framework for investment in the WTO have come forward with proposals which seem tailored to obtain greater acceptance by developing countries. There is a dramatic departure from the approaches taken in the OECD MAI. For example, the proposals generally recognize the need to maintain coherence with the GATS and to follow a positive list approach. It has been

suggested that developing countries might wish to react to these proposals with a coherent counterproposals at the appropriate time. Such proposals could consider alternative approaches for dealing with investment issues, such as taking them up in the context of existing MTAs.

(iv) TRIPs

37. In view of major difficulties faced by developing countries in implementing the TRIPs Agreement, the following matters merit consideration: (i) extension of the transitional period to provide additional time in view of broadness and complexity of the reforms of IPR laws required for domestic industries to adjust; (ii) lack of technical and financial support to develop IPR rules adapted to domestic circumstances and stage of development and necessary institutional infrastructure; (iii) adoption of specific measures facilitating the use of compulsory licensing as a means to ensure the transfer of technology (including environmentally sound technologies), and to meet public health concerns (e.g. compulsory licensing regime for VMO listed essential drugs); (iv) shortening the term on patent, to bring the TRIPs Agreement into line with the Convention on Biodiversity; (v) inclusion of new provisions in the TRIPs Agreement relating to the protection of traditional and indigenous knowledge and works of folklore. In addition, provisions should be made to prevent any restriction on parallel imports. The TREPs Agreement should be clarified to explicitly prohibit any rules and practices that amount to unilateral retaliation based on IPRs issues.

38. Further negotiations on TRIPs should be based on the recognition of the major difficulties faced by developing countries with the modernizing the administrative infrastructure, modernizing and drafting new laws on the granting and protection of intellectual property rights, strengthening institutions and creating a culture for the protection of intellectual property, and creating an appropriate framework for promoting research and development to ensure that they would not continue to be only consumers of foreign technology. The transition period should be extended at least until the end of the negotiations.

39. There is lack of clarity on the criteria used to decide what can and cannot be excluded from patentability in Art. 27.3 (b). By

stipulating compulsory patenting of microorganisms (which are natural living things) and microbiological processes (which are natural processes), the provisions of Art. 27.3 contravene the basic tenets on which patent laws are based: that substances and processes that exist in nature are a discovery and not an invention and thus are not patentable. Moreover, by giving Members the option whether or not to exclude the patentability of plants and animals, Art. 27.3(b) allows for life forms to be patented. The exclusion of patentability of plants and animals shall be extended to microorganisms as there is no scientific basis for the distinction.

40.TRIPs Article 27.3 (b) should recognize the principles, objectives and measures planned and proposed under the CBI) and the International Undertaking that Member countries exercise sovereign rights over their biological resources. The review process should seek to harmonize Article 27.3(b) with the provisions of the CBI) and the International Undertaking, in which the conservation and sustainable use of biological diversity, the protection of the rights and knowledge of indigenous and local communities, and the promotion of farmers' rights, are fully taken into account. The right of holders of traditional knowledge should share benefits arising out of any related innovation through material transfer agreements/ transfer of information agreements, such obligation could be included in the provisions in Article 29 requiring a clear mention of the biological source material and the country of origin. Domestic laws on biodiversity should ensure that prior consent of the country of origin and the knowledge holder of the biological -raw material meant for usage in a patentable invention would enable the signing of material transfer agreements or transfer of information agreements.

41. The same degree of protection of geographical indications as granted to wines and spirits should be extended to cover other products, particularly typical products traditionally produced in developing countries.

42.The current procedure in Article 31 for the use of patents without authorization is highly restrictive. It limits the authorization to the supply to domestic markets and it provides for termination of the authorization if the circumstances which led to it ce ' ase to exist. Certain drugs are essential and any restriction on their production should be removed so as to ma' ke them available at reasonable prices. There is a need for relaxation in exclusive rights of the patent holders in respect of the drugs listed as essential by VMO. There should be a provision authorizing countries to use automatic compulsory licensing for these drugs in the interest of their supply at reasonable prices.

43.The moratorium on the application of the non-violation remedy under the TRIPS Agreement should be maintained indefinitely until members agree by consensus that sufficient experience has been gained with the application of the Agreement and that the remedy if adopted will not increase Member's level of obligations.

44. Recognizing that the provisions of Article 66.2 are obligatory and that the provisions have not been effectively implemented. Guidelines on categories of incentives shall also be established. The application of this Article should be extended to all developing countries. The technology gap between developed and developing countries is widening. Articles 7, 8, 40, 66 and 67 are important obligations that qualify other provisions of the Agreement. Effective transfer and dissemination of technology at fair and reasonable costs to developing countries constitutes one of the key elements in accelerating the pace of their economic and social development, thus developed countries' shall implement their obligation in relation to transfer of technology should be effectively implemented.

(iv) Subsidies and Countervailing Measures

45. The reviews conducted under Articles 8.2(a), 27.6 and 31 of the Agreement on Subsidies and Countervailing Measures (ASCVM) should address the difficulties faced by many developing countries owing to the industrial subsidies (both export and domestic) generally used by developing countries for development of their industrial production and export fall in the "actionable" category. The review provides developing countries with leverage to include some of such measures within the non-actionable category. There is a need for developing countries to more clearly identify those subsidies which they consider essential to their development programmes.

46.The review should also examine the link between the ASCVM and the TRIPs Agreement with a view to facilitating the transfer of technology, and explore ways and means of making financial resources available to meet the special need of developing countries, particularly with respect to the subsidies covered by Article 8.2(c) (adaptation to environment requirements).

47. Annex I of the ASCW should be amended to include provisions to allow developing countries to provide financing to their exporters in terms that are consistent with their development objectives, taking account of the fact that interest rates which prevail in developing countries are generally higher than those in developed countries. If the credits provided are not above LIBOR they should not be considered to contain a subsidy element.

48. The provisions with respect to S&D treatment should be made more realistic. For example, the $ 1000 per capita income criterion could be replaced with a more relative concept, such as one based on the ratio to the per capita income in OECD countries. Also if developing countries fall below the per capita limit, they should regain their exemption for the export subsidy prohibition.

VI. Other Market Access and/or Rule-Making Issues

Anti-Dumping measures

49. Article 15 of the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (or the Agreement on Anti-Dumping Measures) recognizes that special regard must be given by developed country Members to the special situation of developing country Members when considering the application of anti-dumping measures. However, since the Agreement has come into force, this provision so far has never been implemented. Given the frequent use of anti-dumping duties against developing countries, it is vitally important to make Article 15 meaningful and agree that the negotiations should aim at establishing specific obligations for granting special and differential treatment to developing countries in the area of anti-dumping. Such provisions could establish special de minimis thresholds applicable to the imports from developing countries, dumping margins and negligible imports.
However, there is a need to correct certain elements of the

Agreement which penalize developing countries due to fundamental characteristics of developing country economies and their firms.. These apply to the provisions on standing, pre-initiation consultations, negative dumping and the lesser duty rule.

50. Another implementation issue is that of the completion of the mandated negotiations on anti-circumvention measures. It has been suggested that such measures should not be permitted and that. the problems of "circurmvention" of anti-dumping duties could be dealt with in the context of rules of origin or customs classification.

(ii) Industrial tariffs

51. Some countries consider that the inclusion of industrial tariffs in the negotiations is essential to obtaining a balanced package that would address all the interests of developing_countries. While noting that such negotiations are not part of the built-in agenda, the developing country proponents of such negotiations stress the need to achieve substantial tariff reductions on those products which face tariff peaks and tariff escalation.Tariff negotiations could adopt a simple and transparent approach, including appropriate methods to eliminate tariff peaks, tariff escalation and nuisance tariffs, as well as to credit autonomous liberalization measures adopted since 1 January 1995.

52. The negotiations should be accompanied by a comprehensive initiative to reduce/eliminate non-tariff barriers, so as to make sure that non-tariff concerns do not counter the benefits of further tariff reductions. The non-tariff initiative may be based on a rules approach, looking at horizontal issues such as licencing, rules of origin, product safety standards and certification procedures.- The negotiations should take into account special needs and conditions faced by developing countries.

53. In this context, tariff-free and quota-free access to all products from LDCs should be implemented by all developed countries by the end of the new round of negotiations. Developed countries should also, where feasible, improve their autonomous provisions of significant margins of preferences in favour of developing countries in products of export interest for these countries, and will simplify and harmonize

the rules associated to such preferences.

(iii) TBT

54. It is recognized that the benefits of trade liberalization achieved by the Uruguay Round negotiations could be undermined by the protectionist use of technical regulations, standards and conformity assessment procedures. Therefore, certain provisions of the Agreement on Technical Barriers to Trade should be amended to ensure that the risk of using technical regulations, standards and conformity assessment procedures as border protection instruments is minimized, while all country members equally benefit from the Agreement.

55. Technical regulations and standards should be harmonized through a fair international standard-setting process where all countries have equal opportunities to effectively participate. International standardization activities should be carried out according to the principles of transparency and accountability and should take into account the special development, financial and trade needs of developing countries. Full implementation should be given to the principles of transparency, least trade restrictiveness, non discrimination and special and differential treatment for developing country members. Technical assistance should be provided by international organizations and developed country members to developing country members and it is recognized that special efforts should be devoted to the least-developed country members. However, in no event technical cooperation should replace the removal- of unnecessary trade barriers. The provisions referring to equivalency of technical regulations and mutual recognition of conformity assessment procedures should be fully implemented to ensure the achievement of the goals of the Agreement, as well as flexibility for country members to select measures which are appropriate to their specific technological, developmental, environmental and socio-economic conditions. An increasing number of technical regulations and standards, including eco-labeling programmes, reflect environmental concerns, and it is essential that environmental considerations should not be used as disguised barriers to trade.

(iv) SPS

56. The benefits of trade liberalization in the agriculture sector

achieved by the Uruguay Round negotiations could be undermined by the protectionist use of sanitary and phytosanitary measures. Therefore, certain provisions of the Agreement on the Application of Sanitary and Phytosanitary Measures should be amended to ensure that the risk of using SPS measures as border protection instruments is minimized, while all members equally benefit from the Agreement.

57. SPS measures should be based on scientific evidence and harmonized through a fair international standard-setting process where all countries have equal opportunities to effectively participate. International standardization activities should be carried out according to the principles of transparency and accountability and should take into account the special development, financial and trade needs of developing countries. Full implementation should be given to the principles of transparency, least trade restrictiveness, special and differential treatment for developing country members, and adaptation to regional conditions. It is imperative that technical assistance be provided by international organizations and developed country members to developing country members and it is recognized that special efforts should be devoted to the least-developed country members which are approaching the end of the transitional period. However, in no event technical cooperation should replace the removal of unnecessary trade barriers. The provision referring to equivalency of sanitary and phytosanitary measures should be fully implemented to ensure a high level of health and sanitary protection and flexibility for country members to select appropriate domestic measures. Mutual recognition of conformity assessment procedures should be pursued to avoid unnecessary testing and certification costs.

VII. Broader Systemic Priorities

58. Another priority should be aimed at providing developing countries with Special & Differential Treatment (S&D) in their favour, adapted to the realities of globalization and development strategies. The underlying need for S&D treatment in favour of developing countries has not changed in the post-Uruguay Round period. The disparity in per capita income between developed and most developing countries has actually increased since 1980, and many developing countries have fallen into the least developed category. Even those developing countries which have achieved growth

success have nevertheless had their vulnerability demonstrated by the financial crisis. Developing countries also face major handicaps in implementing their multilateral trade obligations and in deriving benefits from world trade and from the trading system.

59. As the pressure to extend the "frontiers" of the trading system continues, there would be a need to preserve the right of developing countries to take certain measures as essential components of their development policies. Rather than relying on artificial and arbitrary time frames unrelated to need or performance, the expression of S&D treatment should be tailored to the specific trade needs and development objectives of developing countries. There should be an understanding at the beginning of the new trade negotiations that such provisions would be included where a clear case for their need could be demonstrated. Pursuance of this- approach would require a clear understanding as to what measures constituted such "essential policies" and factual demonstration of disadvantages faced by developing countries or their exporters.

60. For example, this could include examination of the following broad policy lines relating to S&D treatment: (i) basic rights of developing countries under Article XVRI, Part IV and the Enabling Clause which remain integral parts of GATT 1994; (ii) extension of Enabling Clause to cover also South-South provision of non-reciprocal preferences to LDCs; (iii) adequacy of transitional periods in some WTO Agreements that would be phased out by 2005 or earlier; (iv) revision and improvement of S&D provisions in WTO agreements on the basis of experience accumulated in their implemeniation (for example, establishment of new thresholds in application of anti-dumping measures to safeguard developing countries' export interests); (v) elaboration of additional S&D provisions providing emphasis on supply side measures in order to foster the development of internationally competitive export supply capabilities and to encourage product diversification; (vi) linkage of fluffier trade liberalization to transfer of technology requirements; and (vii) definition of S&D aspects for LDCs, small and vulnerable States to redress their marginalization.

61. Another systemic issue relates to the problems faced by developing countries, especially the least developed among

them, currently acceding to the WTO. Achieving the universality of the multilateral trading system should be a major objective of the new negotiations. However, the acceding countries are facing substantial difficulties in their attempt to benefit from some of the S&D provisions in the WTO Agreements. The negotiation of transitional periods, for example, is being strongly resisted by major developed countries. The acceding countries are also being required to accept obligations going beyond those of the original WTO members or the WTO Agreements themselves, for example in such areas as agriculture, privatization, export tariffs and the acceptance of optional plurilateral trade agreements. Moreover, they are facing excessive requests to liberalize market access in goods, and especially in services which may not be consistent with their present development needs. The approach to acceding countries is often motivated by geopolitical strategies and concerns to establish precedents.These imbalances should be corrected to avoid fragmentation of the trading system in terms of different rights and obligations for original members and newly acceded countries. The new negotiations should not delay, but on the contrary advance the accessions to the WTO, so that by their completion the WTO should become a truly universal organization.

62.The financial crisis once again brought into the picture relationships between trade, finance and development. The trading system is being severely strained by the current financial turmoil. To achieve greater coherence in global economic policy-making, which is one of the WTO functions, and make it more operational, WTO rules and disciplines should be taken fully into account by the international financial institutions when designing macroeconomic programmes and "rescue packages" for individual countries. Developing countries should not be obliged to abolish asures which are consistent with their WTO obligations, for example, with respect to non-specific subsidies and commitments on services.

63. Developing countries are traditionally confronted with weak institutional capabilities and lack of resources for sustaining effective trade policy formulation and coordination mechanisms. Financial assistance could be an important element in future to enable developing countries to implement the obligations and exercise their rights. Developed countries have traditionally resisted any notion that the multilateral trade

agreements could include "financial windows". However, practice has demonstrated that without such assistance the possibilities of many developing countries to fully meet their obligations and effectively exercise their rights is very limited. In order to strengthen the credibility of a rules-based multilateral trading system, during new negotiations, an attempt should be made to assess the administrative and financial burden of fulfilling multilateral obligations. For example, where new multilateral disciplines are accepted, there should be an "implementation audit" to estimate the financial and administrative cost of implementation for developing countries.

Notes

1. See UNCTAD/ ITCD/TSB/6,UN sales no.E.99.II.D. 17

2. See, GA Doe. A/ 521898, 13 May 1998, p. 7.

3. The proposals by LDCs were submitted to the WTO preparatory process, see doc. WT/W/W/ 251, 13 July 1999.

4. WT/MIN(98)/DEC/ 1, 25 May 1998.

5. These include: trade and investment; trade and competition policy; transparency in government procurement and trade facilitation.

6. It is meant that "New issues" include: Trade and investment; Trade and competition policy; Transparency in government procurement; Trade facilitation; and Electronic comerce.

7. See the 3rd Quadrilateral Trade Ministers Meeting, Tokyo, 11-12 May 1999; Communique of the OECD Council Meeting at ministerial level, 27 May 1999; and G-8 Summit Communique, 20 June 1999.

8. See, WTO Doc. VY7/GC/W/230, 6 July 1999, in which Argentina, Australia, Chile, Costa Rica, Czech Republic, Hungary, Korea, Mexico, Morocco, New Zealand, Singapore, Switzerland, Thailand, Uruguay and Hong Kong, China has proposed to launch a new comprehensive round of multilateral trade negotiations; and Declaration of APEC Summit, Auckland, New Zealand, 13 September 1999.

9. See "The EU Approach to the Millennium Round: Communication from the Commission to the Council and the European Parliament", Brussels 8, July 1999.

11. See, WTO Doc. WT/GC/V255, Communication from Dominican Republic, Honduras and Pakistan, 16 Ju1y 1999.

12. See Carlos M. Correa, "Technology Transfer in the WTO Agreements", UNCTAD.

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