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# Summary

# Objectives and challenges of Argentina's foreign policy

*Jorge Taiana* *

Ever since his inauguration on 25 May 2003, President Kirchner has promoted the restoration and reaffirmation of the principles on which Argentina's foreign policy is historically based, though they may have been at times ignored by some constitutionally elected administrations and violated during military dictatorships.

These fundamental principles include respect for and advancement of human rights and democracy, upholding international law and multilateralism, building consensus in the organizations established by the international community, non-intervention in the domestic affairs of other sovereign states, and the peaceful resolution of conflicts.

Based on those principles, the Argentine Republic actively participates in international affairs, with the objective of contributing to building a safer, more stable and equitable world by way of seeking consensus that strengthen international law, democratic government rule, and the promotion of values associated to international peace and to the respect for human rights.

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Under the aegis of this conceptual framework, Argentina promotes its international insertion as a country that is open to the world – though in a realistic fashion that includes regional preferential policies, especially through the Mercosur platform –, and which that sets for itself flexible policies that are adequate to the circumstances of the international context.

As we move along this road, strengthening our regional alliance also makes us stronger. It allows us to improve the insertion of our country in the world and to amplify our voice in the various multilateral fora.

Multilateralism is considered by the Argentine government to be the most efficient tool to achieve international peace and security and to face challenges such as poverty, terrorism, corruption, the illicit drug trade, and transnational organized crime.

It is against this background that Argentina's permanent participation in the various international organizations and fora should be understood. This is, among many others, the case with our traditional participation as a non-permanent member in the UN Security Council – a status Argentina will hold this time until December 2006 –, the goal of which is to contribute to regional and global consensus building.

In this context, it should be pointed out that during the March 2006 Argentine Presidency of the Security Council, we promoted an open debate on Haiti that engaged numerous actors that are involved in promoting the improvement of the social and political situation in that country. This Unsc meeting highlighted once again Argentina's active participation in the pacification and institution-building process undertaken within the framework of the UN Mission for Haiti (Minustah), one of the Caribbean countries that is more seriously affected by poverty.

The Unsc's Minustah mandate includes humanitarian and social stabilization goals with a view to achieving the conditions for Haiti's return to democratic rule. Argentina, Brazil, Chile, and Uruguay have played major roles in that mission and have served as witnesses of the free and transparent electoral voice of the Haitian people. It is worth mentioning that President-elect Préval has asked Argentina, Brazil, and Chile for cooperation beyond Minustah. This would involve policies aiming at strengthening democratic governability and at opening up the road to development. We have been pleased to see the high degree of solidarity there is among the region's countries at times of political instability –

either through cooperation initiatives or through good offices that respect the non-intervention principle.

With respect to international security, Argentina maintains its permanent commitment to promote disarmament and non-proliferation in the relevant specialized international fora and organizations. Furthermore, as concerns the peaceful uses of nuclear energy, we are increasingly promoting and supporting exports by the Argentine nuclear sector, which is growing apace.

Figthing terrorism is another major priority of Argentina's foreign policy. At the UN, our country reiterated its firm attitude in the face of this scourge, classifying terrorism acts as criminal and unjustifiable. There is no racial, religious, ideological or any other reason that may justify the murder of innocent civilians. In order to face terrorism, it is of the essence to count on the commitment and the support of all nations, under the aegis of the observance of international law and human rights.

For Argentina, promoting and protecting human rights has become both state policy at the domestic level and a permanent element of its foreign policy.

Our country is an active participant in the international debate and in every substantive progress concerning these issues achieved at the various international fora. The government of President Kirchner is convinced that unqualified respect for human rights ensures the full implementation of democratic institutions and the rule of law, thus contributing to guaranteeing both international peace and security.

Our government also attributes the utmost importance to fighting drug running and to preventing drug abuse, encouraging every regional and international initiative that contributes to prosecuting, controlling, and eliminating the illicit drug trade and preventing drug abuse. The principle of shared responsibility among producer, consumer, and transit countries is fully applied in this regard.

It is a permanent and unwavering objective of our foreign policy to work towards recovering the exercise of full sovereignty over the Malvinas, South Georgia, and South Sandwich Islands, as well as over their surrounding maritime spaces, through a peaceful solution under international law that respects the way of life and the interests of the islands' inhabitants. This permanent objective is a policy of the Argentine state and it reflects the collective yearning of the people of the Argentine nation.

Considering the premise that foreign policy is indissolubly united to the national project we intend to build, the Argentine government is fully committed to working with other nations in the fight against poverty and hunger as well as in the struggle to reform international financial organizations, to eliminate tariff and non-tariff barriers to the products of lesser-developed countries, to pardon the external debt of the poorest countries or swap it for education, in the fight against terrorism and the struggle to stop the illicit trafficking of goods and persons.

Therefore, Argentine intends to maintain serious, wide-ranging, and responsible relations with all countries in the international concert of Nations, which are based on the identification of our common interests and the respect for our differences.

In every international forum, we reassert our determination not to relinquish our foreign-policy decision-making autonomy, and to actively and constructively engage our efforts towards a more democratic, equitable world order.

In particular, we attribute priority to building and strengthening an integrated Latin America that is solidly based on the foundation of democracy and of unqualified respect for and defense of human rights.

This position is expressed through active Argentine participation in every forum where common action is considered to face our countries' common issues. Among such fora, one may count the Rio Group, the Iberoamerican Summit, and ALC-EU (Latin America & the Caribbean-European Union) negotiations.

Furthermore, Argentina promotes the trend toward a univocal Latin American expression in those multilateral fora under the aegis of which the relative situation of our countries may be favorably changed, such as the Americas Summit, the G-20 or the UN Security Council, just to mention a few recent examples.

Concerning the Americas Summit, it is auspicious to see how the complex situation of Latin American countries, where the scourge of the social divide is unbearably permanent, has established beyond a doubt that economic growth is not enough to eliminate poverty, and that other, active policies are needed to achieve the longed-for development.

Indeed, in the 1990's, and though country-specific differences should be acknowledged, the region went through a period of sustained economic growth and opening of trade that not only was unable to correct the serious and deep social divide then prevalent, but – as was the case in our country – worsened it to an unprecedented degree. Therefore, though on one hand there were advances linked to areas such as pacification, human rights, and democratic rule, on the other hand poverty, disease, and illiteracy prevailing throughout wide swaths of our populations, as well as recurring governability crises continued to be characteristic Latin American traits.

At the beginning of the century, a regional consensus was explicitly reached at various multilateral fora to the effect that though indispensable, economic growth would not suffice in and of itself to solve those issues. At the same time, it was acknowledged that progress concerning civil liberties and the rule of law would be at risk in the absence of similarly satisfactory advances in economic and social rights.

Accordingly, at the most recent Americas Summit, which was held in the Argentine city of Mar del Plata, the hemisphere adopted as its objective to "create decent work... to fight poverty and strengthen democratic governance". This statement is a testament to the awareness concerning the respect for human dignity and a reminder that social justice is the most effective pillar of democracy.

Also in connection with the demand for the right to development, a group of countries from all around the world have engaged themselves in the G-20, which features a prominent group of Latin American states. Under the aegis of this group, Argentina, along with Bolivia, Brazil, Chile, Cuba, Mexico, Paraguay, and Venezuela, as well as Asian and African countries sharing the same demands, press the World Trade Organization to obtain better access to developed country markets for their products.

In the context of deepening regional integration, Mercosur, a block of which Argentina is a founding member, has gone beyond merely trade-related aspects. The so-called "Political Mercosur" has seen a continuing, markedly positive evolution, which in turn has strengthened the multidimensional character of the integration project.

The Ushuaia Protocol of 1998 established the rule of law as a requirement for Mercosur membership. More recently, new ground was broken in the form of a supplementary clause: the Mercosur's "Asuncion Protocol on the Commitment to Promote and Protect Human Rights."

The multidimensional quality of Mercosur was further demonstrated by the commitments reached under the aegis of the Political Concertation and Consultation Forum (Fccp) as a result of meetings of Ministers of Culture, Social Development, Education, and Justice or Interior, as well as Specialized Mercosur Meetings on Women Issues, Municipalities and Intendencies, and the enforcement authorities for Drug Issues and Drug Abuse Rehabilitation.

To those meetings, one should add the various Working Groups covering issues that are strategically relevant for the region, which demonstrate the increasing relevance for the everyday life of its inhabitants of the Political Mercosur – the citizens' Mercosur. Currently, those Working Groups deal with Consular and Legal Issues, the Common Motor Vehicle and Driver Registry, Small and Light Arms, Human Rights, Public Defenders, and Internal Auditing Organisms.

In addition to such initiatives, the Fccp is also in charge of the Extra-Mercosur Political Dialogue, which represents our block in negotiations with the European Union and with the Russian Federation, in the on-going context of developing new relationship platforms with third countries or blocks.

One should further recall that besides the qualitative importance associated to the Political Mercosur, it not only involves the founding members of the block – Argentina, Brazil, Paraguay, and Uruguay – but also its Associate Members, such as Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela, which is seeking Full-Member status.

The Argentine calling for regional integration was inscribed into its Constitution in the wake of the 1994 constitutional reform. The institutional and legal adaptation of our country to the commitments undertaken within Mercosur has made it quite expedient for us to incorporate the block's norms into our domestic legal structure.

One example is the Patria Grande ("Larger Homeland") Program that seeks to legalize the migratory status of foreigners born in Mercosur member and associate member countries. The Argentine government took this initiative unilaterally, with a view to facilitating the legal steps required to obtain legal alien resident status in our country. The Program is based on certifying the nationality of origin as being that of one of the region's countries, and it adopts good faith as its major guiding principle.

Argentina thus carries over into the present – placing an emphasis on its home region – its proverbial generosity towards foreigners, which was already inscribed into the Preamble of its 1853 National Constitution.

It should therefore become apparent that Argentina is tirelessly promoting institutional strengthening and updating as a way to foster Mercosur's potential far beyond its commercial aspects. The vigor Fccp has shown, and the impact that commitments adopted under its aegis have had on the daily lives of the region's inhabitants motivates us to remediate and to balance the mercantilist bias that the Mercosur's 1990's institutional makeup instilled into the constitutive structure of the block.

Today, the large regional spaces that completely cover the territory of South America – the Andean Community of Nations and Mercosur – are undergoing a process of convergence that may lead to unification into a South American Community of Nations. Nevertheless, Argentina is cautious about the potential for functional and meeting redundancies vis-à-vis the preexisting blocks, as well as for differing commitments by South American states that hold free-trade agreements with third countries.

In the context of our country's unyielding calling for a fuller, deeper regional integration, the government of President Kirchner is also promoting stronger bilateral relations with countries such as Brazil, Chile, Bolivia, Mexico, and Venezuela.

The recent commemoration of the signing of the Iguazu Declaration by Presidents Alfonsín and Sarney, on 30 November 1985, was an adequate backdrop for putting in place mechanisms aiming at revitalizing the bilateral relationship between Argentina and Brazil.

On that anniversary, Presidents Kirchner and Lula signed the "Iguazu Commitment: development, justice, and integration", a strongly political conceptual document. Under its aegis, 23 protocols and declarations open a new cycle in the bilateral relationship. These documents give concrete meaning to the political will to further develop bilateral integration, cooperation, and coordination, and they commit both administrations to carry out a significant number of initiatives and projects with a view to updating, deepening, and expediting the ties between the two countries.

There can be no doubt that Argentina and Brazil shoulder a significant share of the responsibility to move along the road to regional integration. The decisions and initiatives that led to the second Iguazu Summit, as well as the joint commitments and actions that resulted of it, expand the realm of integration and cooperation already in place and press on towards developing new ones. The objective is thus not only to integrate our societies, but also to open new paths to be traveled together with the other countries of the region.

Similarly, our awareness of history leads us to acknowledge that the responsibility of the two largest states of the Southern Cone goes beyond their bilateral relationship. Indeed, integration between Argentina and Brazil is the foundation and the engine for the regional Mercosur integration process, which, in turn, sustains and energizes South American integration.

Concerning relations with the Republic of Chile, we can state that ever since democratic rule was reestablished in both countries, we have made progress along many avenues of interest. Over the last few years, our bilateral ties have been deepened to a hitherto unprecedented degree in our common history. Argentina and Chile acknowledge each other to be strategic allies, and they share a clear calling for peace, friendship and for promoting democratic rule and human rights. Argentine-Chilean relations are going through one of the best periods in history, which heralds an increasingly rich and beneficial agenda for the peoples of both nations.

With respect to Bolivia, we congratulate ourselves with them for having overcome the institutional floundering which so concerned the region and that had overshadowed our traditional bilateral relationship. Argentina and Brazil, in particular, have given ample proof of their solidarity with the Bolivian people, as well as their support of and respect for its constitutional process. Argentina is working on issues of high importance for Bolivia, such as, for instance, improving the living conditions of the significant Bolivian community in our country. Furthermore, Argentina and all other Mercosur members are convinced that the admission of Bolivia as a full member would be auspicious for the group.

In this context, Venezuela is already one step ahead on the road to fully joining Mercosur. This contributes to furthering the common interests that Argentina and Venezuela share concerning the growth of trade and joint investments. Venezuela was one of the first countries to trust in our economic recovery.

As concerns Mexico, geographic distance cannot overshadow the close cultural identity that unites it to Argentina. To highlight it, we do not have to delve as far back into the past as the Mexican Revolution's influence on our country's politics: suffice it to recall the generosity of the Mexican state and of its people towards our political exiles and asylum seekers during the more recent dictatorship years. Mexico was not only a land of peace, study, and work for many fellow Argentines: it represented for them the hope to live on during those dark years. This brotherly relationship is furthered today by the Argentina-Mexico Forum, the goal of which is to bring our communities closer together under the aegis of mutually beneficial projects for both countries.

The major objective of Argentine foreign policy in the economic and trade realm is to achieve an intelligent insertion into the international economy. We hope to achieve this by carrying out the project of building a country of fairness, an equitable and inclusive society that is both modern and productive.

Today's Argentina can boast a remarkable economic recovery that is based on four pillars: fiscal, trade-balance, and current-account surpluses; a flexible though stable currency exchange rate; a predictable monetary policy; and trade diversification, both in terms of traded products and of markets. Our 2005 trade balance surplus rose to about US$ 12 billion, despite continuously expanding imports motivated by our economic recovery.

Opening up and effectively harnessing new markets is one of our central goals. In order to achieve it, we are pushing ahead on two inter-related fronts: economic and trade negotiations, and market intelligence development. Together, these initiatives shall effectively consolidate new trade opportunities we have negotiated.

But an intelligent integration must necessarily start in our own region. This is why strengthening Mercosur is a priority objective of our foreign policy. One of the current challenges in this regard is to further consolidate it as a single market endowed with a functional institutional structure that ensures legal security and enhances Mercosur's growth, with a view to reaching an effective productive integration of regional value-added chains.

In seeking balanced and beneficial growth for its members, we have turned our attention towards the issue of asymmetries, with a view to finding consensus solutions that balance competition, encourage fixed investments, and allow for a more equitable distribution of the benefits of integration, enhancing the development of the smaller countries and of the most backward regions and sectors.

Mercosur is tackling a wide-ranging agenda of negotiations, among which one may highlight those conducted with the European Union, Israel, South Africa, India, the Gulf Coooperation Council, Cuba, Pakistan, South Korea, and Japan.

At the same time, as a country that has multiple and non-excluding interests, we are committed to the goal of strengthening and consolidating our relations with the other American countries, especially enhancing our ties with South America by means of common economic, trade, and physical integration projects.

As concerns trade relations with other countries and regions, Argentina assigns priority to initiatives that help promote a balanced, equitable trading system.

The integration into the world that Argentina seeks is a pragmatic one, and is a result of applying negotiating criteria that are both firm and in tune with the country's interests and with the circumstances of the international context, with a view to contributing to the on-going process of restoring the credibility and predictability of the Argentine government.

With this goal in mind, over the last few years we have intensified our efforts at approaching countries with which trade relations could be markedly improved. Therefore, we have strengthened and improved understandings with regions such as Asia, Africa, and the Mideast, which ten years before played a minor role for our exports. We have also grown closer to some non-EU European countries.

This policy has led our foreign sales to rise to US$ 40 billion at the end of 2005 (60 percent above 2002 results), and to grow at a 15 percent yearly clip.

Concerning World Trade Organization (WTO) negotiations, concluding the Doha Round has become an extraordinary challenge, which will require a large dose of political will and of joint work to correct the main distortions to international trade, especially in agriculture.

Argentina is fully involved in the Doha Round negotiations, with the purpose of securing enhanced access to international markets in the near future by means of reducing tariffs, non-tariff barriers, and agricultural subsidies. In the framework of such process of negotiations, Argentina is a member of various groupings (G-15, G-77, G-Rio, financial G-20). We start out by seeking regional consensus within Mercosur, which is later applied at the multilateral level. We pay special attention to avoiding traumatic changes that may negatively impact the reindustrialization process that our most sensitive industrial sectors require.

With the adoption of the Millennium Declaration (2000) and of the Monterrey Consensus (2002), development funding was energized as a necessary element for more effectively waging war on poverty. In the various international fora, Argentina supports initiatives to fight hunger and malnourishment by means of generating self-sustaining economic growth in developing countries.

Argentina also seeks to influence international financial organizations so that their activities take into account funding projects to promote developing-country advancement. Argentina thus supports introducing new, more effective international financial tools to fight poverty. It is along those lines that significant changes have been proposed, which involve both globalization and the creation of international taxes or levies that do not imply direct disbursements on the part of national states. The idea is to support such initiatives and to promote changes in the international financial system that favor developing countries.

In every instance, we are aware that our ability to face our tasks will be strengthened by contributions from civil society and of the business sector, which are charged with implementing those initiatives that are implicitly involved in any economic integration process. A joint effort by the public and the private sector is needed in every one of our countries so that integration translates into effective, measurable benefits for all.

Our country will continue to uphold the need for dialogue and cooperation among nations, in order to achieve an increasingly safe, stable, and equitable international society – an international society that is able to effectively promote peace, liberty, prosperity, and the common good of our peoples. DEP

Version: Manuel Carlos Montenegro

# Bolivia, a force for integration

*Evo Morales* *

Bolivia, a relatively small country set in the heart of South America, has been an integration hub since our remote past, including the early years of European occupation. It also served as a Spanish buffer province against Portuguese encroachment, being hotly disputed among the colonial viceroyalties. One way or another, this land, descending from the highest peaks of the Andes to the outer reaches of the mighty Amazon, is crucial to any political strategy implemented in the region.

That may explain why past or current events here convey an image of persistent conflict. While the Tiwanacota culture extended its influence over the entire Tawantinsuyu of the Incas and the Qollasuyu encompassed the richest lands of Huayna Kapac's empire, one should not ignore the vast expanse of the colonial *Audiencia de Charcas*, often deemd the matrix for the entire region. This penchant for integration, though, has always been fraught with internal disputes exposing rivalries between *ayllus*[1] and *markas*[2], between neglected or displaced

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[1] *A* self-governing, land-owning peasant community in the Andean highlands. The term may refer to a village, a kinship group, or a class-like organization, usually based on collective agriculture. Although a pre-Columbian reference, *ayllu* has been used as a synonym for contemporary highland Peasant Communities.

[2] A *marka* is formed by four *ayllus*.

*corregimientos*[3] and those enjoying colonial attention, whose demands were granted by the vast Spanish Audiencia. These wrangles and petty rivalries attended the foundation of the elitist republics imposed by Creole power groups – oligarchies incapable of seeing beyond their own immediate gratification, thereby condemning our lands to vegetative poverty and backwardness.

Recovering Bolivia's manifest vocation for integration by overcoming provincial quarrels and misunderstandings between social groups is the lofty desideratum informing our political action. It is one that should be embraced by all men and women determined to recoup the high values of human coexistence not only in our region but also in the wider world.

## Our early history

Owing to their gravitational force, the ancient cultures that flourished around Lake Titicaca had a decisive influence over huge tracts of land that extended to the Amazon rainforest in the east and to the Pacific coast in the west. It was the Tiahuanaco civilization, however, that clearly embodied our country's calling as a force for integration. The Tiahuanaco ruins are located near Lake Titicaca, which straddles the border between Peru and Bolivia. In its heyday, this religious and political center was located on the banks of the lake. Its monuments attest to the high degree of civilization it attained and to the influence it cast over a wide region. Tools and utensils typical of this culture have been found as far away as Santiago, Chile.

According to legend, it was from Lake Titicaca that Manco Kapac and Mama Ocllo hailed. They were the architects of the Inca Empire, South America's most advanced civilization, which resisted European invasion and, despite military defeat, maintained the spirit of unity among the original peoples across this sprawling region throughout the three centuries of colonial rule. Though formally subordinate to the Lima Viceroyalty, the Audiencia de Charcas enjoyed autonomy as regards the Charcas University, one of the continent's cultural centers, and exerted its legal authority over a huge territory abutting the possessions of the Portuguese Crown.

[3] Colonial administrative districts that later became *intendencias* (intendancies or provinces) and Catholic dioceses or parishes.

Such preeminence stemmed from acknowledgment of its influence by the Spanish conquistadors, wherever they started out from. That was the case of the expedition that founded Buenos Aires and then sailed up the River Plate to the point where it established Asuncion, Paraguay's current capital. One expeditionary, Ñuflo de Chávez, searching for the riches everyone dreamed of hauling back to Spain, pushed on until he came to the first foothills of the cordillera. There he founded Santa Cruz de la Sierra. At that juncture, realizing he could no longer depend on Asuncion – much less Buenos Aires – he chose to apply to the Lima Viceroy, requesting the incorporation of these lands into the Audiencia de Charcas.

The Audiencia de Charcas proved to be the seedbed of the great independence propagandists. Belgrano, Pasos, and the Potosí-born Cornelio Saavedra, who headed Buenos Aires's first Protective Board, had all three come from Charcas, where the Audiencia's President had been deposed in 1809. They chose to proclaim Buenos Aires's independence in 1810 to commemorate the first anniversary of the Charcas uprising.

Even later, when the struggle for independence was under way, that integrating force, active since the first civilizations, undeniably influenced the thinking of the liberators, who dreamed of forming a great nation comprised by our peoples. It was not a question of cultural influence alone, but a heroic struggle of men and women of the original peoples, who throughout European rule, had repeatedly rebelled against the colonial power. Around 1870, Tupac Amaru in Lower Peru and Tupac Katari in Upper Peru led the most important uprisings by original peoples. Amaru, with Micaela Bastidas, and Katari, with Bartolina Sisa, epitomize the force of a culture whose basic nucleus is the couple. The truth is that men and women fought side by side in this great country for the continent's freedom.

The independence war was a medley of uprisings, which some historians have referred to as *republiquetas* but which were in fact guerrilla movements supported by Indians and half-breeds and an occasional Creole embracing the cause of freedom. In the steep Yungas valley of La Paz, Father Muñecas and the Lanza brothers; in Oruro, Sebastián Pagador before anyone else; in Chuquisaca, the Padilla couple; Ibáñez and the Vicuñas, in imperial Potosí; in Santa Cruz, Coronel Warnes and the bowlegged Cañoto; in Tarija, "Moto" Méndez; and in Cochabamba, Esteban Arze and the heroic women who defended themselves against abuse from Spanish authorities. The role played by Juan Maraza, the Canichana Chief, is also noteworthy.

From this mosaic issued a Fatherland that, born in the boundless Amazon plains, traversed the highest Cordillera peaks to bathe in the waters of the Pacific Ocean.

## Bolivar's Fatherland

On becoming a republic, this land was named after El Libertador, who treated it as a "favorite child." Chroniclers say that this was the way to please him who could then create countries or prevent them from being formed. But above and beyond these circumstantial facts, the founders clung to the one name that could then have any meaning for Latin American integration and renamed the Audiencia de Charcas after Sucre, Bolivar's most loyal follower. Symbolically, Bolivia's founding was a call to the unity of the peoples of our continent; it encapsulated the meaning manifest in the Amphictyonic Panama Congress.

The country encompassed a vast territory of over three million square kilometers. Its boundaries resulted from an arrangement accepted by the Creole, based on recognition of the Colony's administrative divisions. Even during the colonial era, though it was part of the Lima Viceroyalty, the Audiencia de Charcas had its own portion of the Pacific seaboard and advanced all the way to the extensive Brazilian border – one feature depended closely on the other.

In the Republic's early years, the will to integrate dictated the main course of action that led to the establishment of the Peruvian-Bolivian Confederation. It should be noted that the foremost player in this enterprise was Andrés de Santa Cruz Calahumana, a half-caste born in La Paz, who became President of Peru (1826) and then of Bolivia (1829-1839). His ideal was shared by politicians and military figures from both young republics but was undermined by other Bolivian and Peruvian political leaders and members of the military. Their opposition sprang from suspicions stoked up the government of a neighboring country, namely, Chile. Its main artificer, Diego Portales, mustered all the forces at his disposal to scupper the integration process. Again and again, Portales sent troops to dismember the Confederation. He eventually achieved his purpose in 1839 when several of the Protector's collaborators turned against him.

Bolivia was severely wounded. The titanic effort required to establish the Confederation, South America's strongest, most solid State for a short period, had sapped its future prospects. In the following years, its access to the Pacific coast was barred by fierce competition between the ports of Valparaíso and El Callao, as they vied for dominion over this extensive coastline, Antofagasta then being an intermediate port bereft of development prospects.

## The five sisters

Deprived of an outlet to the sea, Bolivia is surrounded by five countries, two of which are regional powers.

Bolivia shares with Peru not only a long border spanning three degrees latitude but also dominion over Lake Titicaca, the region's main freshwater asset. Our history and culture bind us together in a single unit, while modern relations dilute geographical frontiers owing to the free movement of men and women with similar mindsets and strong family ties. It is only natural, then, that Peru and Bolivia should have stood shoulder to shoulder in the Pacific War, as a result of which both countries lost part of their territories. Nonetheless, Peru's unresolved disputes with other neighbors have often driven a wedge between the Lima and La Paz governments.

With Brazil we share an extensive border, which, as mentioned, was initially the line of defense against Portuguese encroachment. Today, on the contrary, it is an open invitation to dialogue and integration. Along this border traced by mighty rivers, not a single locality has been able to develop solely through its own efforts. Far removed from major urban hubs, the riverine populations vegetate on opposite banks. Yet this region is rich in natural resources that could well support sizeable centers of economic activity. Concerted action by the entire region would permit this sort of development.

In the early years of the Republic, the Marshal of Ayacucho sent out a mission to make contact with Paraguay. José Gaspar Rodríguez de Francia, Paraguay's Supreme Commander, wary of foreign intervention, rebuffed that initial contact. In a way, he was right: the Triple Alliance, instigated by world powers, put a painful end to the endogenous development experiment begun by Francia and carried on by Solano López. It took a fratricide war between Collas and Guaranis to bring about the necessary sharing of interests in this scarcely populated, arid zone known as the Chaco, whose subsoil on both sides of the border harbors immense reserves for generating the energy we all need.

To the south, Bolivia seems to extend into the northern Argentine provinces. Jujuy, Salta, Formosa, and Chaco differ in nothing from Potosí in the west and from Tarija in the center, as far as geography and population are concerned. Coca is chewed in those provinces the same as here. The inhabitants of northern Argentina dress, speak, and eat just like their counterparts in the Tarija Chaco, too. Even more importantly, the economy in this zone is fueled by cross-border trade. The region's vitality relies on unruffled relations between the two countries.

Our fifth neighbor is Chile, with which we have – and have always had – a thorny relationship marked by rash, hurtful incidents.

The governments of both countries should earnestly ask themselves what the reasons for this long-standing confrontation are. We could easily claim that Chile's foreign policy has been one of confrontation with its three neighbors – Peru, Argentina and Bolivia. True enough, it has somehow managed to settle its differences with the first two but not with our country. It is well known that Bolivia's foreign trade depends entirely on the ports of northern Chile (Antofagasta, Iquique, and Arica) and that business in these port towns depends in large measure on that trade. Their development is unbridled and requires better services, which apparently can only be provided through good relations with Bolivia. It is clear that this coastal zone has a growing demand for water and energy, the cause of the latest misunderstandings between the two countries. Deviation without consultation of the Lauca River in the 1960s, refusal to recognize Bolivia's right over the Silala waters[4], and Chile's current energy demand – these are the factors that set the strident tone of relations between the two countries. The Chilean State has maintained an unchanging policy toward Bolivia for nearly two centuries: identification of its own requirements, identification of sources to meet them, and assumption of control over such sources. The policy has yielded high dividends all along. As stated above, nearly all Bolivia's foreign trade flows through Chilean ports, and there is a vigorous exchange of products and financial resources, all of which is highly favorable to Chile and detrimental to Bolivia. However, this model has now become a serious hindrance to Chile's

[4] A channel built by a railway company to supply its steam locomotives with water from the *bofedales* wetlands located in Bolivian territory.

relations not only with Bolivia but also with its other neighbors and the world at large. Of course, changing a course of action upheld for so long is complicated. But Chile must do just that or risk becoming isolated from the international community. Bolivia realizes that regional integration will be incomplete without Chile, and that it will go forward when the Mapocho rulers prove willing to join the South American community.

## The international concert

The Bolivian State has never exercised a consistent international policy. With great effort, one Administration manages to maintain a given line of action that proceeds through ups and downs. Then, the next Administration starts its foreign relations from scratch, ignoring, if not jettisoning, what has gone before.

The only plausible explanation for Bolivia's relations with Europe is the fact that local power groups continue to view that continent as the dominant power. The independence proclaimed 180 years ago has not succeeded in shaking off the mental subjection that has marked our relations with the Old Continent. It is hardly surprising, then, that we maintain a bevy of ambassadors in Europe (two in Italy!) but only one, or none, in Africa. These diplomats have no function other than maintaining a formal, condescending friendship toward our country from which Bolivia may derive some sort of assistance. Whether this assistance be for production, services, infrastructure, health, education, or culture seems indifferent to our rulers.

Japan, of course, fits the same mould. Despite being located on the easternmost fringe of Asia and having an utterly different culture, social makeup, and system of government, the Bolivian government's expectations vis-à-vis Japan are identical. Our relatively recent relations with China display no clear objectives, either. Indeed, our relations with Asia defy explanation. We fail to grasp how more than half the world's population could be of interest to a country such as ours, which has a pressing need for proper relations with nations that can pull their weight in the international arena.

The same applies to Africa. Sporadically, we maintain an embassy on that continent. This may be because the Bolivian government has yet to appreciate the reasons why we should maintain relations with African countries. Their existence is simply ignored, just as we are ignored there and in most of the world.

It would seem that the focus of our foreign relations should be trained on the American continent. And yet there are inexplicable gaps in what should be the main focus of our diplomatic activity. Central American diversity is disregarded: a single diplomatic representation cannot attend to those five republics plus Belize. The picture gets worse when we turn to the Caribbean whose Spanish- or English-speaking countries and Haiti do not figure in our relations, a blind spot that also encompasses the Guyanas. Cuba is an exception only because Havana makes an effort to maintain relations with the entire continent.

Ample diplomatic representation in the United States of America can be justified on the basis of the type of relations Bolivia maintains with that country. However, given our country's limited diplomatic apparatus, the fact that we maintain three full representations there is absurd. That may provide us with a complete picture of the factors determining our foreign relations, whose unilateral orientation is the result of the subordination that has been the hallmark of Bolivia's domestic and foreign policies.

## Breaking the vicious circle

This continent's original peoples made their voices heard in 1992, 500 years after Christopher Columbus landed on the continent and the occupation of our lands began. Their voices sounded the theme of unity and integration. From the Arctic to Tierra del Fuego, the peoples saw themselves as one people. We are united in our sense of belonging to this land and of being a part of it. United by the customs that have remained the same despite the great distances and the long period during which brethren were kept apart from brethren. United in awareness that our land has been taken from us, just as our ways of working, governing ourselves, and living have been expropriated. This is why the voices that have sounded since then declare integration to be both desirable and necessary.

Latin America has managed to maintain common ties even after its conquest and colonization. We have appropriated the invaders' language. It is ours now since we have paid for it in blood, exploitation and humiliation. We have made it ours so that it might yield the splendid fruits of a literature that expresses original warmth, flavor, and texture clothed in Castilian form and color.

The same goes for the peoples north of the Bravo River, who, like ourselves, clamor for the land that has been taken from them, their customs that have been changed, and their kinsfolk that have been slaughtered.

Integration, proclaimed Simón Bolívar. His enemies, who did not want integration because it countered their petty interests, attempted as often as they could to murder Bolivar. Ignoring the great service he had rendered this continent, they condemned him to exile, but he preferred to die rather than quit his native land.

Whenever a circumstantial speech is in order, Bolivar's ideal is invoked as an aspiration of our peoples. To date, however, no effort has been made to instate the great Latin America fatherland. Yet there is every indication that the time has come to bring this aspiration to fruition, thereby overcoming the petty interests that have ruled our countries for centuries.

On what basis did Bolivar forge the ideal of one country extending from Mexico to Patagonia?

It was no mere fantasizing. He had seen the European tragedy of his time – countries confronting each other, defenseless before the power of richer kingdoms. The French Revolution, spreading across Europe, seemed to be leading to the unification Napoleon Bonaparte attempted to impose by the might of his armies. But the idea was defeated by retrograde powers, and Europe lapsed once again into a patchwork of kingdoms and principalities. Bolivar realized that under such conditions, conflicts would never cease. Thereafter, Europe was engulfed by a succession of wars that lasted one hundred and fifty years and only ended in 1945. Bolivar's aspiration was based on this predicament. He did not wish a similar fate for Latin America and, moreover, to the north of this continent he saw an ambitious country emerging.

Groups with claims on power still resist the trend toward integration, but a political imperative prevails born of economic expedience.

Bolivia, centrally located in this region of America, ought to render a decisive contribution to this process aimed at fostering the unity of South American countries.

## An integration factor

Our country has been a hub at every stage of this region's history. That was the case in Tiahuanaco and in Tawantinsuyu. Not even the European colony could escape this force, whose consolidation was championed by the patriots fighting for independence. But then the interests of certain groups prevailed, leading to circumstantial riches for each party and to maintenance of the colonial era's methods of spoliation.

Many opportunities have thus been missed, not only in our country but in other countries as well. Bolivia saw its silver and tin deposits depleted, its rubber plantations abandoned, and its oil squandered. The same fate is now being insistently imposed on natural gas. Owing to a simplistic view of free trade, gas has been transformed into just another commodity and is in danger of becoming a dwindling resource that leaves only poverty behind. Eduardo Galeno, America's great chronicler, wrote about "the importance of not being important," as he stressed how countries in possession of significant natural resources become the target of savage exploitation that yields no benefit but greater poverty and backwardness instead.

The foregoing should suffice to convey the message that Bolivia as a country and South America as a region should have a different notion of ways to exploit their riches. In the case of gas, we are convinced that it can be a factor contributing to integration.

It is worth pondering this idea. The region's development, albeit at the low rates imposed on us by the globalized world, has produced an energy crisis. This situation requires hydrocarbons, especially gas, to fill the gap. But it is not a question of engaging in a competition based on prices or privilege. The community of the region's nations should set a fair price that would foster the development of the country in which this resource is exploited, permitting its industrialization and thus ensuring better living standards for the entire region. Once these minimum conditions are met, sales outside the region could then be considered. Insisting on this issue, it is clear that integration will place us in a better position to negotiate with the industrialized countries. Particularly with respect to energy resources, there is a proposal to form a broad association of hydrocarbon-producing countries in Latin America. It is essential that this initiative should begin to take shape at a more immediate level.

Something similar should occur in relation to trade in general. The Ftaa negotiations, which have failed due to attendant impositions, have been partially replaced by the negotiation of Free Trade Treaties. Although they have had initial success in Central America, the FTTs stir up suspicions in our midst. Thus, the so-called Andean Free Trade Treaty has fallen prey to the selfsame postponements besetting the Ftaa. The alternative the countries of our region should contemplate is a mechanism of their own that favors internal economic development, safeguarding our growth from the cupidity of world powers that demand raw materials and semi-finished products and seek, in exchange, to generalize the unimpeded sale of their products – transgenic seeds, virtual products, and management systems that will, in the medium run, engender greater dependence.

As a result, regional integration has become an inescapable issue, an unquestionable condition, and an undeniable demand. Integration, however, is based on proper understanding, which in turn involves a matter crucial to Bolivia's development: its claim to an outlet to the sea.

## Reparation of an injustice, restoration of integrity

Bolivia is a unit born of the vast plains that extend from the country's southeast to its northeastern reaches, climbs the highest Andean peaks, and descends to the shores of the Pacific Ocean. The amputation of its integrity 125 years ago has been a key factor in the backwardness blighting the country and consequently the regions adjoining its extensive borders.

Suffice it to note that economic activity in northern Chile has survived solely on account of Bolivia's needs. The prospect of modifying that connection understandably raises deep concern in the region.

Needless to say, restoring this zone to Bolivia's sovereignty would automatically boost trade in the region. But the narrower interests of the groups wielding power in Santiago de Chile have ruled out any such reparation.

Finding a mechanism capable of reestablishing a status harking back to prehistoric times is a challenge the integration process must address. We maintain that an agreement must be reached by the three countries directly involved in the issue, with the participation of the other nations in the region. They surely have a stake in a solution that would herald the dawn of a new paradigm for relations among the peoples of South America.

The integration process ought already to be under way. This is required not only by the political reality of the world today but also by our countries' pressing needs. We should thus move forward at a brisk pace. We propose that gas be seen as the prime factor for integration at our disposal whilst maintaining that the restoration of Bolivia's integrity is a *sine qua non* condition for integration. DEP

Version: João Coelho.

# The brazilian economy's challenges and prospects

*Paulo Skaf* *

Brazil's average annual demographic growth over the last few years has held at 1.5 percent. We may thus expect about 2.8 million new Brazilians to be born in 2006. It will be up to the Nation to decide what kind of a future awaits not only its newborn sons and daughters, but also its children and teen-agers enrolled in schools, as well as its youth and adult population now seeking employment. It is also up to the Nation to decide what kind of a future it will give to citizens anxious to be brought into the ranks of its consumer society. It is up to the Nation to decide what kind of a future it will give to the resilient workers and businesspeople who have kept the Brazilian economy alive by surmounting difficulties through decades of adverse circumstances worthy of a saga. Taking into account official IBGE[1] projections that place our population at 207 million by 2020, stagnation is not an option for Brazil. Therefore, every notch on our GDP scale becomes extremely important.

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It goes without saying that to consistently achieve public account surpluses, to control inflation, to honor both domestic and external debt payment schedules, and to keep commitments made to multilateral credit organizations are all of the essence. Of course they are! However, a country that boasts the fifth largest population on the planet cannot afford to assess economic performance only on the basis of tables and numbers that relate to some index oscillation or the other. We need to reach for more, much more. We need to correct past mistakes as well as economic policy concepts that both the past and the current Brazilian administrations have stubbornly held. Promoting a sustained growth cycle is not enough: the benefits of such expansion should be felt more effectively by the Brazilian people. It does us no good if the economy is doing well according to some cold indicators while the quality of life of Brazilians does not enjoy any measurable improvement.

In other words, it is of the essence that the country adopt, and keep to, a minimum agenda in order to take the path to development. Such an agenda should include four structural adjustments that may not be postponed any longer: (a) fiscal and tax reforms that lower public debt and reduce the tax burden the productive sector currently bears; (b) implementing a credit policy that includes lowering interest rates; (c) infrastructure improvement; and (d) adopting a trade policy that may increase exports in a sustained fashion.

The first task ahead of us is to adopt a tax policy that encourages, not hinders, economic growth and productive activities. The true and effective solution to the taxation problem is a wide-ranging reform of the tax system, one that includes key fiscal issues. Governmental expenditures are growing faster than governmental revenue. We must define what we expect the state to do, how large it will be, how much it will cost, and how it will be financed.

In our view, this is the crucial issue. The public debt is the result of many years of neglecting to keep balanced accounts. This has been a major obstacle hindering the adoption of a growth-oriented economic policy that is less obsessed with monetarist, restrictive measures to control inflation and to keep the federal budget, the strategic dollar-denominated reserves, and the Nation's credibility in a fragile balance. We have given priority to what we presume to be security to the detriment of creating jobs to address unemployment and demographic growth, of fostering social inclusion by means of salary and income distribution, of promoting business growth and of effectively starting a virtuous growth cycle.

The long-standing stagnation that has led our economic growth rate to be lower than even those of our Mercosul neighbors may not be allowed to go on. The effects of this relative sluggishness are serious indeed. Brazil's competitiveness has gradually declined. In 1980, Brazil, China, and India each had a share of about 3 percent of the world's GDP. While our country has sled back to a 2.6 percent share – a 25 percent loss –, China and India have surged ahead by 325 percent and 81 percent, respectively. We need to offer new, wider horizons to the 190 million Brazilian citizens through efficient public policies that uphold a commitment to the fate of both the present and future generations.

## A Study by Fiesp shows the way to operational surplus and sustained GDP growth

Our deep concern about the public debt, fiscal and tax issues has led Fiesp to conduct a detailed study to establish how serious those problems are and to identify feasible solutions. The adoption of such suggestions would put an end to the decades-long routine of spending more than tax revenues allow for. Incidentally, this must be termed quite a "feat", for our Nation's government collects almost 40 percent of everything Brazilian society is able to produce! Every administration justifies itself in an awkward drone: "We're preserving the primary surplus". Alas, the extraordinary deficits and their negative impacts, which the Fiesp study reveals, are never adequately addressed. The study highlights the parallel growth of the tax burden and of governmental expenses between 1995 and 2004, and especially from 1998 onwards. Over that period, the public debt jumped from 30.5 percent to over 51.8 percent of GDP. Tax revenue growth reached 63.5 percent (or 5.6 percent a year, on average); the GDP's growth itself hovered at 2.2. percent, that is, less than half the tax collection growth rate. More serious still, expenses expanded 61.5 percent over the same period, that is, at a 5.5 percent yearly clip.

The urgency of achieving an operational surplus (one that includes servicing the debt) is made even more clear by the study's projections: should the Federal government's expenses continue to grow at their present yearly rate, by 2015 the primary surplus (which excludes debt interest payments) would fall from the current R$ 52.3 billion to R$ 40.7 billion, the tax burden would still be high and expenses would increase from 17.3 percent to 19.3% of GDP.

In order to reverse this picture, the study suggests three measures: cutting expenses by 2 percent a year for six consecutive fiscal years (2006 to 2011); limiting fiscal revenue growth to 50 percent of GDP growth, with a cap of 2.75 percent a year; and, once operational surplus is achieved, using 90 percent of such proceeds for investment over the following fiscal year, while using 10 percent for debt amortization over the current fiscal year.

The administration would secure an operational surplus by 2011. The main impact of this would be a strong rise in GDP growth, which would go from 3.5 percent in 2005 to 6.8 percent in 2015 (a yearly average of 5.7 percent). Private and state investment would account for such an increase: in 2015, the latter would reach 5 percent and the former would be 19.2 percent of GDP. We would thus overcome the current, cruel equation posited by public outlays, which paralyzes the country and forces it to control inflation by means of high taxes and interest rates, an overvalued exchange rate, credit limitations, and other monetarist measures that thwart prosperity.

Proposals to cut expenses are met by the usual responses involving alleged difficulties such as the Constitutionally-mandated linkage of fiscal revenue among the federal, state, and municipal levels. Well, various items for which the government must pay are already above the compulsory percentage levels. In such cases, productivity and quality growth should be sought, so as make excess fat cuts feasible. As to the deficit-ridden social insurance system, fighting petty corruption and seriously updating benefitiaries' personal records in a way that does not place the brunt of the effort on retired people and pensioners themselves would bring about the desired, necessary expense cuts.

The second structural task to be tackled on the development agenda is establishing an efficient credit policy to finance both businesses and the consumer. This is the economy's major source of fuel. Nevertheless, Brazil's Credit / GDP ratio is appalling – just about 27 percent, compared to Chile's 70 percent.

We also have one of the world's highest interest rates and the world's largest spread, which tops almost 40 percent in the case of pre-fixed repurchase operations. In 2004, credit grew for as long as the Central Bank hinted the Selic prime interest rate would fall. However, since last September, as the Selic rate was set on a month-by-month growth cycle, this trend reversed itself.

Another Fiesp-sponsored study shows that Brazilians – both as individual and as corporate citizens – spend R$ 118 billion a year to cover interest payments, out of which R$ 73 billion are due to spread rates. Were our spread rate equivalent to the Latin American average (Chile, Argentina, Mexico, Colombia, and Venezuela), this expense would be just R$ 16 billion.

It is widely known that infrastructure is one of our country's bottlenecks. It suffices to look at a few numbers to realize the importance of increasing efficiency in that area. The logistics sector as a whole – taking the chain of suppliers, warehousing, domestic transportation and distribution into account – generates revenues of about R$ 100 billion a year. In 2004 alone, more than 1.2 billion tons of freight were transported. A balanced transportation matrix, along with efficient logistical planning, would go a long way toward reducing the final cost of products, and it would also boost Brazilian competitiveness.

However, the freight transportation system, such as it stands today, generates significant economic and competitiveness losses. It therefore increases the so called "Brazil Cost". This state of things, furthermore, generates other losses, such as excessive delays in transportation of goods, lost investments by companies that would want either to launch new ventures or to expand current business, agricultural harvest losses, and a shortage of warehousing capacity in the countryside. All of this is a result of the inefficiency of the transportation logistics chain.

It is therefore imperative that we invest in ports, railroads and terminals. These investments would reduce operating costs and boost efficiency, so Brazilian products would become increasingly competitive abroad and cheaper for the domestic consumer. It is also indispensable to improve Brazilian roads. A study by Fundação Getúlio Vargas, which was sponsored by the Heavy Construction Syndicate of the State of São Paulo, reveals that the Brazilian road network, at 1.7 million kilometers, is much too small for the size of our territory. It also points out there are vast stretches of unpaved roads. Our road network's density stands at 202 kilometers per thousand square kilometers. Numerous countries – including some in Latin America – boast significantly higher ratios. On the other hand, published research results of the National Transportation Confederation (CNT) show that 74.7 percent of the 74,681 kilometers of paved roads in Brazil are in poor condition and/or are otherwise defective. Furthermore, signposts are inadequate in 65.4 percent of Brazilian roads.

Investing in electricity generation should also be a priority. The economic growth that all of us hope for – that is, at least 5 percent a year – may increase the risk of a repeat "blackout" in the absence of adequate investment for electricity generation, transmission, and distribution. According to Fiesp estimates, Brazil needs to add between 6 percent and 7 percent to its energy matrix every year in order to be able to adequately promote growth.

Taking the transportation and energy sectors as examples, the significance of Public-Private Partnerships (PPP's) clearly comes to the fore. Such partnerships not only would bridge the resource gap for infrastructure investment: they would correct an old distortion. Indeed, until very recently, the only two legal instruments that were available to regulate infrastructure investment in Brazil were the Public Bidding Law, which applies to procurement that is 100 percent financed with state funds, and the Law on Concessions, which covers investments that are 100 percent private. PPP's bring common sense to the table, making it possible for both public and private sources of funding to be tapped.

Therefore, it is all-important to urgently implement PPP legislation, which will have been in force for almost a year come December. It is inadmissible that we continue to delay the practical implementation of this model of partnering, which has already been shown to be feasible in other countries. Besides bringing solutions to the field of infrastructure by preventing infrastructure bottlenecks from blocking economic growth, PPP's should also stimulate industry, opening up business opportunities in many fields, from capital goods and heavy-duty engineering or metallurgy to both high-tech and labor-intensive fields.

Beyond reducing its public debt, establishing an adequate taxation system, lowering interest rates and improving infrastructure, Brazil also needs to establish an efficient trade policy. Brazil's share of the world market in 1999 was about .86 percent, and it grew to 1.11 percent in 2004. This is a significant achievement, but we need – and are able – to grow even more. In order to have a strong economy, we need large exports. Fiesp supports increasing trade with developing countries. However, Brazil cannot forget who its major trade partners are: the United States, Europe, and Japan. We should try and seek special trade arrangements with them, as these would involve a sizable trade volume.

The implementation of trade policy runs along two major axis, the first of which, as stated above, is solving the logistic and infrastructure bottlenecks. We cannot afford to go on losing R$ 1.2 billion a year on account of loading delays at Brazilian docks. The second major axis of policy implementation concerns the exchange rate. The relative value of the U.S. dollar and the volatility of the

Brazilian real discourage exports. Some companies are losing money in order to honor foreign sales commitments they made when the exchange rate was over three reais to the dollar. This is unacceptable.

As concerns volatility, a Fiesp study clearly shows that the real is the currency that oscillates more than any other fluctuating currency vis-à-vis the U.S. dollar. The largest gap between the highest and the lowest value of those currencies in 2004 was 11 percent. In the case of the real, it reached 22 percent. These circumstances are dire for exporters, importers, and business in general, as importing some machines and supplies is just as unavoidable as having to face foreign competitors.

Another key point for trade policy is to correctly gauge economic diplomacy decisions. In this connection, mistakes such as the recent recognition of China as a market economy should be avoided. It should be noted that Beijing did not reciprocate, and indeed opposed the Brazilian goal of becoming a permanent member of the United Nations Security Council, while at the same time condemned the presence of Brazilian peacekeepers in Haiti. Brazil's posture vis-à-vis the economy of that Asian nation has been nondescript. It would be impossible to convince business people or government officials in any domestic or international forum that Chinese prices are ruled by the market. Not even the most extreme critic of liberalism would accept the concept of "social dumping" as a justification for quasi-symbolic salaries…

## Brazil must win the fight against piracy, which negatively affects both the domestic and export markets

The importance of an increasingly efficient trade policy was clearly shown by the Brazilian economic performance in 2004, a year in which about 56 percent of GDP growth was due to exports. Foreign sales reveal an enormous effort on the part of business, especially industry, to overcome obstacles. Industry has been able to reach world-class standards in both quality and FOB prices, in spite of obstacles to access to technology and to financing brought about by all the problems described above.

Businesspeople are already doing the impossible to maintain the present record levels of Brazilian exports. Nevertheless, they face the imminent challenge of entering the metaphysical realm of miracle-making. There would be no other choice had the United States acted on their threat to exclude Brazil from the tariff benefits of the Generalized System of Preferences and to adopt other restrictive measures, as retaliation to spiraling piracy and fake products. Despite market diversification, Americans still are the largest buyers of Brazilian products. Increased barriers to bilateral trade would be a major blow.

The U.S. administration's decision to postpone the exclusion of Brazil from its Generalized System of Preferences was a confidence vote for the Brazilian commitment to engage in a fierce fight against piracy, to which the private sector has contributed decisively. Unfortunately, Brazilian piracy numbers are portentous. Therefore, this fight can admit no omissions. Everyone must engage in it. This is what Fiesp is doing. It chose to give priority to the defense of the right to industrial, intellectual, and trademark property, and to the fight against piracy. This crime greatly affects industry and the economy. It impacts the level of employment, consumer security, tax evasion, and the investment climate. Fortunately, Fiesp's initiatives were internationally welcomed and contributed to keeping Brazil's GSP status.

Fiesp representatives called on several U.S. government organs, including the Department of Commerce and the Ustr Office. Last March, I had a meeting in Washington with the acting Ustr, Ambassador Peter Allgeier, and with Assistant Commerce Secretary William Lash. We also signed a Memorandum of Understanding between Fiesp and the U.S. National Association of Manufacturers. Furthermore, we are increasing our cooperation with the U.S. Chamber of Commerce.

On March 29, we held a seminar entitled "Brazil Against Piracy" at Fiesp headquarters. Among the many officials who attended were Senator Norm Coleman, Chairman of the Western Hemisphere Subcommittee of the Senate's Foreign Relations Committee, and the U.S. Ambassador to Brazil, John Danilovich. On June 16, we held another seminar, entitled "Brazil Against Piracy: The Fight Goes On".

Fiesp was the first organization to be brought on board its Panel of Collaborators by the National Council for Fighting Piracy. It also undertook a number of other initiatives to face the problem. It opened an interactive installation on the theme "Brazil Against Piracy" on Paulista Avenue in São Paulo, at the SP Fashion Week event in Praia Grande, and at the Ministry of Justice and the Chamber of Deputies, in Brasilia. It published the "Brazil: A Pirate Country?"

report on intellectual property issues, as well as a study on "Brazil and the U.S. Generalized System of Preferences". Fiesp also actively interacts with other business sector organizations and with Derex's International Negotiations and Trade Defense section.

Furthermore, last September, Fiesp organized a *Summit on Intellectual Property Rights*, joined the Ministry of Justice in sponsoring a Training Program for Public Agents, and defined the minimum parameters Brazilian legislation must adopt, and Brazilian agencies must follow, concerning pirate merchandise apprehension and disposal. We are also creating a digital portal on product identification and customs valuation.

All of the above actions, strategies and the associated mobilization show Fiesp's commitment to face the problem. The industry of São Paulo will fight untiringly, arm in arm with all other sectors, until this evil is rooted out. The Brazilian economy must prosper in a production environment that recognizes industrial and intellectual property, and that pays due respect to quality, ethics, and transparency. It also must acknowledge and respect intellectual and industrial property, as well as rules of origin.

Beyond finding solutions for basic structural problems (the public debt, the tax and fiscal systems, credit and interest rates, infrastructure bottlenecks and trade policy), there are several other measures we must take in order to surmount the challenges we face. These are, inter alia: strengthening small and very small business, fostering innovation and research, and improving the quality of education. All of this should be done with the full participation of society and the productive sector, in a collective exercise of social responsibility. All of the above items are championed by Fiesp.

It is interesting to note that in the field of small and very small businesses, Brazil can boast having one entrepeneur for every eight inhabitants, as compared to the U.S., where that ratio is 1:10. In Brazil, the number of people who opened their own businesses grew from 18 million to 23 million over the 1999 to 2003 period. Meanwhile, the numbers of the salaried held at 18 million. Another important piece of data: the participation of women in business reaches 40 percent in Brazil, a figure that compares favorably with the 30-percent world average. The downside: World Bank research has revealed the pitfalls entrepreneurs must face in Brazil, starting with the bureaucracy involved. To open a company in Brazil requires 152 days. It takes only two days in Australia, and four days in the United States. Brazil's ranking for that requirement is 73rd in a field of 78 countries.

As concerns closing down a business firm, it takes 10 years in Brazil to clear all hurdles, as compared to six months in Japan and 18 months in Russia. Labor laws are another facet of the problem (reform of labor relations laws should also be a priority). Brazil's ranking for that item is 78th in a field of 133 countries. For comparison purposes, Singapore holds the title for the most adequate, flexible system, scoring 20 marks. It is followed by the United States (22) and Canada (34). There can be no doubt one of our the priority goals should be to get Congress to vote the bill entitled "General Law on Small and Very Small Business". This bill – it should be recalled – was handed to President Luiz Inácio Lula da Silva last July 8 at the end of a historical civic march on Brasilia.

It is no overstatement to say that the process of drafting the bill was a landmark for participative democracy. The work started in October, 2003 as a result of wide-ranging negotiations, which involved meetings and seminars in every region of the country. These involved six thousand representatives of all sectors of activities. The process was coordinated by Sebrae[2] and later adopted by the Business Front for the General Law on Small and Very Small Business, which was officially launched on April 12 at Fiesp headquarters in São Paulo.

## We must overcome the paradigm of abusive taxes and interest rates and of an unresponsive bureaucracy

The movement meets the expectations of every Brazilian worker and entrepeneur. It advances the goal of breaking with the paradigm of abusive taxes, of sky-high interest rates and of an unresponsive bureaucracy.

São Paulo state alone boasts 4.5 million entrepeneurs. Small and very small businesses (PME's) account for 99 percent of Brazilian companies and for 67 percent of jobs. It is thus necessary to support them, encourage them, and to ensure their longevity. Therefore among other measures, such as cutting red tape and raising the revenue ceiling that is used to legally define a PME, the bill also includes three items that aim at improving and expanding PME financing: tax-free loans by Micro-entrepeneur Credit Societies (SCM's) and Civil Society Public-

[2] An organization that supports small, very small, and medium-sized businesses.

Interest Organizations (Oscip's); sector-specific credit lines; and expanding the loan-security system.

As concerns research and innovation, it is important to recall that over the last five years, Brazilian scientific production grew five-fold as compared to the 1980's. Brazil now trains over six thousand PhD's a year. All of this is highly positive! Nevertheless, such indicators still do not mean that we have reached our goals. We still have work to do, especially enhancing academic-industrial interaction. Private initiative should increasingly turn to knowledge workers. In the United States, about 800 thousand scientists are on company payrolls conducting research. In the Republic of Korea, that figure is already 75 thousand. Brazil compares poorly at less than 10 thousand. The Republic of Korea files 3,500 patents a year in the United States, compared with Brazil's one hundred.

Fiesp has just signed a cooperation protocol with the world-renowned Brazilian Corporation for Agriculture and Livestock Research (Embrapa) with a view to facilitating and expanding business access to knowledge, research, and innovation.

The agreement meets the goals of Fiesp's Committe on the Agribusiness / Agroindustry Supply Chain, which was established as a response to Brazil's growing profile as a supplier of food and agriculture equipment. It is useful to recall that under our administration several such committees were established, with a view to enabling Fiesp to generate information and to contribute to solving problems and advancing solutions for the various industrial segments it serves.

Throughout negotiations with Embrapa, we made clear our goal of participating in efforts to fulfill our Nation's promise: to become the earth's food-basket, and to produce renewable energy for industrial and automotive uses. In order to achieve such goals, agribusiness must seek quality enhancement and competitive costs – and it must be helped along the way by science and knowledge. The agreement was signed with a view to conquering such goals. It will align agricultural and livestock technology with the needs and requirements of industry.

This protocol is thus a response to the old Brazilian challenge of joining closer together the sources of science – academics and research institutes – and the productive sector. What is at stake is to turn knowledge into a factor of production, so that the latter can add to the former the enormous value of economic growth. Bringing closer together a world-class technology center and the productive sector is of the utmost importance. Only thus will we able to reach all of the pieces of the supply chain, to further expand Brazilian exports, to create jobs, and to generate and distribute wealth. Only thus will we be able to offer more options, quality, and security to the Brazilian consumer.

Brazil's induction into the so-called Knowledge Society, however, is not limited to the realm of advanced research, science or academia. It actually starts with opening up opportunities, not only in primary, middle, and secondary schooling, but as a wider process of social inclusion. The Brazil of tomorrow – a fully developed or perhaps still an emerging country – will be the Nation that we are able to build. Therefore, it is of the essence that one understands that the road to social and economic prosperity necessarily involves a number of coordinated public policies. We must settle our social liabilities, and use jobs, entrepeneurship, and fair salaries as the major means of extending citizenship rights and economic benefits to millions of Brazilians. This means we must ensure that basic rights to health, education, housing, culture, and leisure are observed.

The size of the challenge should not dishearten us. It should be understood as a historical opportunity for Brazil to improve its quality of life. To successfully face the problem requires a wide-ranging involvement by society, the productive sector, and volunteers. The optimism about our ability to conduct a positive historical transformation is amply reinvigorated by the rising commitment by civil society to foster the common good. Fiesp can boast its initiatives involving the "Third Sector" as successful examples of this trend.

Fiesp is noted for its work in the field of education. The Senai-SP[3] system's 150 units enroll 700 thousand students a year. These students get free training in 45 technical-level careers and 31 Industrial Apprenticeship courses. The system also maintains four college-level courses, as well as continuing-studies courses (in the fields of graphics, mechatronics, fashion, and the environment). Fiesp trains up-do-date, qualified personnel for today's industry – and these are also citizens who are ready to contribute to the improvement of society.

[3] The São Paulo state chapter of the National Industrial Apprenticeship Service, an industry-sponsored organization.

The Sesi-SP[4] system includes 215 schools that boast an enrollment of 190 thousand students in its Children Education, Basic Education, and Youth & Adult training and education programs. It is also active in the fields of health, culture, sports and entertainment, serving industrial workers and their families, as well as the community at large. It also promotes the so-called "Global Action" initiative in partnership with Globo TV Network and the Roberto Marinho Foundation. Among the examples of its work in the field of culture are the Sesi Theatre, which is renowned for its high-quality productions, the Sesi Gallery of Art, and the Maria Braz Library on-wheels. Another important initiative is the Fiesp/ Sesi-SP São Paulo Cinema Prize, which was started under our administration. It is a joint venture with the São Paulo State Movie Industry Syndicate (Sicesp) that intends to encourage movie production and attendance, to promote the Brazilian cinema, and to educate new movie audiences. This prize is one of the activities of the Cultural Action Committee of Fiesp, which was also established under our administration.

Sesi-SP health services include dental clinics, medical cabinets, infirmaries, laboratories, and mobile units. Sesi manages programs on "School Health" and "Company Health". It also promotes workers safety, health, and rehabilitation activities, as well as dental and preventive medicine assistance (at the Itaquera "Time Saver" services office).

As concerns nutrition, the "Eat Well" nutrition guidance program has already benefited about 150 thousand people. It includes free courses and public lectures at Sesi-SP's facilities. Nine experimental kitchens, which turn out one million meals a year, are also under the purview of Sesi-SP's nutrition staff. Furthermore, 49 Activity Centers (CAT's) offer sports, social, and recreational activities with a view to improving their patrons' quality of life.

In the field of the environment – another relevant area in the context of social responsibility -, we insisted that Fiesp headquarters be the venue for the Brazilian Technical Norms Association (Abnt) to launch the new version of NBR ISO 14001:2004 norm on Environmental Systems Management. The goal was to help in disseminating the importance of that norm to a wider public. Fiesp collaborates in that work and is in charge of the subcommittee that guided the preparation of the Brazilian version of the ISO technical report on Ecodesign.

[4] The São Paulo state chapter of the National Industrial Social Service, an industry-sponsored organization.

Fiesp's Environmental Department is upgrading its activities. Its experts monitor and develop various initiatives involving environmental management and licensing, pollution control and prevention, water resources and industrial waste. Every effort is being made so that industry continuously improves its environmental performance by responding to the requirements of citizens and of both the domestic and international market, and by promoting the awareness that humankind is a part of Nature and not its master.

Therefore, by exercising social responsibility, the industry of the state of São Paulo gives a firm, positive answer, through Fiesp, to the call of the Nation. This mobilization tacitly shows that it is not utopian to build the developed and socially fair country of our dreams. Its beginnings are to be found in the spirit of solidarity and in the civic awareness of Brazilians. A growing concern with social issues can be witnessed in every sector, both on a small and on a large scale. It will be of the essence to multiply positive examples and solutions.

## Brazil is on the brink of becoming a developed country. It is only a matter of doing our homework right

Once the gap that separates the country we now have and the country we want to have is competently bridged, our prospects for achieving prosperity and a durable growth cycle will be most promising. More important, such prospects are fully feasible. Ours is the most developed industry in Latin America. This gives us a headstart in added-value goods markets and agribusiness. We have a well-structured financial system, and our level of services is continuously improving.

Brazil is a pluralist country. All ethnic, religious, and ideological groups in Brazil live side by side in harmony and peace, contrary to what happens in many nations and regions. Twenty-one years after the election of civilian president Tancredo Neves, Brazilian democracy is firmly rooted, its institutions are strong, and they resist political crises with hardly a dent. Our country is flush with natural resources, the world's largest biodiversity and its largest fresh water reserves (a strategic factor in this century). We are close to self-sufficiency in oil and have outstanding renewable energy sources, specially sugar cane. The Brazilian economy is the world's $12^{th}$ largest and our population has time and again given proof of its ability to overcome its problems.

Brazil is on the brink of becoming a fully-developed country. In order to run the last mile, it needs to overcome the challenges that have so far been described. Furthermore, it also needs to bring out an all-out effort to settle its social liabilities – the recently published UN Human Development Index (HDI) shows that although Brazil has evolved somewhat in that regard, much remains to be done. To be ranked 63$^{rd}$ on the HDI is uncomfortable for one of the world's largest economies

Therefore, it is of the essence that we go about doing our homework as competently – and as in-depth – as possible so that we may achieve first-world status. In order to accomplish this mission, which is decisive for the future of the country, the National Congress and the Executive Branch should be reminded of their accountability to the 190 million Brazilians. It would be intolerable to allow priority legislative proposals to languish, and the project of national development to be once again postponed, on account of the electoral calendar or of allegations of corruption now under scrutiny by Congressional Inquiry Boards – albeit such investigations should be pursued to their ultimate consequences.

Fiesp has adopted a determined stance in this regard. Its significance is supported by the fact that it represents the industrial base of São Paulo, which generates 43 percent of the state's GDP, which in turn corresponds to about 35 percent of the Nation's wealth. The GDP of São Paulo state industries itself accounts for about 45 percent of Brazilian industrial GDP. According to Ibge data, industrial production in the state rose by about 11.7 percent in 2004, as compared to 2003. This strong expansion occurred after years of lackluster performances. Another auspicious sign is that the industrial sector of the state of São Paulo accounted for approximately .313 percent of world experts, as compared to .287 percent in 2003 and .297 percent in 2002.

Our organization has adopted a critical stance on current events, it has presented its demands, and has involved itself resolutely in every mobilization of the productive sector. However, as befits responsibility, it has always presented sound analysis and solutions, with a view to contributing to identify which are the Nation's options in order to follow the path to prosperity and development. We have thus conducted numerous sound studies and surveys, many of which have been productive.

## A Fiesp proposal will generate a R$ 500 million tax rebate for civil construction

The final draft of the so-called "MP do Bem"[5] included, inter alia, five Fiesp proposals – capital gains tax breaks for home sales under R$ 180 thousand; incentives for home buyers by means of progressive rebates; enhancing real state financing guarantees by effecting changes to Law 10,131/2004 lowering to seven percent – from a previous 30 percent – taxes due on the piece of real state effectively involved in the transaction; correcting cumulative distortions of PIS/Cofins mandatory contributions on real state contracts (which would reduce the present 9.5 percent rate to just 3.65 percent); and permitting financial income to be placed on the books on the basis of presumptive profit. More importantly, those measures will generate tax breaks for the civil construction sector of R$ 250 million in 2005 and R$ 500 million in 2006. It should be noted that the real state sector was not even included in the original draft of that Provisional Measure.

Another important initiative was the six-month extension, to December 31, 2005, of the National Bank for Social and Economic Development's (Bndes) Job- and Income-Creation Program (Progerem). This enables small, very small and medium-sized companies to qualify for short-term operating capital financing under special conditions. The recent Bndes announcement about interest rate cuts for financing-related loans essentially reflects the conclusions of a Fiesp study that pointed out that a one-percent drop in the Long-Term Interest Rate (Tjlp) would increase credit demand by R$ 1.1 billion, equivalent to about 3,754 Bndes loan operations.

Exempting wheat flour, bread rolls, spaghetti and cookies from the Merchandise Circulation Tax (Icms) was another Fiesp proposal that was acted upon by the São Paulo state administration. Other suggestions concern bureaucratic and administrative issues that impact businesses in ways seldom realized by the relevant governmental authorities. Here are two such examples, both involving the Federal Taxation Secretariat (FTS): extending from January 31 to February 10 the deadline to comply with so-called accessory obligations;

[5] Literally "Do-Good Provisional Measure". Such measures, known as MP's, are legislative proposals of the Executive Branch, which, under the terms of the Constitution, may enter into force immediatly but must be confirmed by Congress within 45 days, lest they become null and void.

and authorizing those firms that had not obtained digital certification by last March to submit directly to any FTS office their monthly Federal Tax Assets & Liabilities Declaration. In other words, changes were made on two routine administrative issues that did not in any way negatively affect the government, but would have otherwise greatly inconvenienced thousands of companies, and would also have meant heavy fines.

These achievements show how important it is to exercise what I have called "productive authoritativeness", that is, to get businesspeople and workers effectively involved in decisions concerning the future of the country. It is in this spirit that we at Fiesp champion an expansion of the National Monetary Council (CMN) so as to include representatives of society. It is unacceptable that we should continue to wade in the quagmire of simplistic visions and in the destructive belief that we are unable to build a strong economy.

As we have seen, Brazil is in need of a sound national Project. This will involve planned, articulated, and efficient action. The model of financing the public debt by issuing bonds at sky-high interest rates is over. These turn quality of life, social justice and full employment into a sort of usury. It is necessary to eliminate obstacles to the conquest of prosperity. In order to play their role in this process, businesspeople do not want fiscal privilege, subsidies of market reserves. They only want better conditions to work, produce, create jobs, and invest. Their demands can be summarized thus: adopting and following an agenda that is guided by common sense and by a realistic appraisal of the country's problems and potential. DEP

Version: Manuel Carlos Montenegro

# Program of government (2006-2010)

*Michelle Bachelet* *

## Letter to the Chileans

Before the reader begins to acquaint himself or herself with this Program of Government, I would like to share with him or her a few things that I learned over the last few months, which I have spent close to my fellow Chileans, listening to them, and creating new sources of hope together.

I was not raised to wield power, and have never sought power. I am not a member of the traditional Chilean elite. My family name is not among those that created the nation. I attended public schools and the University of Chile. I studied Medicine, because I was thrilled at the prospect of being able to cure, to take away pain, to brush away suffering, and to bring happiness back to the home of a sick child.

As is the case with most Chileans, I was never given anything just for the asking. I have learned almost everything I know through hard work, whether it involved the love of my children, or of my trade, or of my country.

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Politics entered my life by destroying everything I loved the most. I was a victim of hate, and have thus devoted all of my life to transform its poison into understanding, tolerance and – why not say it – love.

I have lived too close to Chilean history not to recognize a historic opportunity when I see one. And this is, beyond the shadow of a doubt, a historic opportunity, a most unique moment for Chile.

Today, thanks to the three Concertación administrations, we Chileans can reach for the sky while keeping our feet firmly on the ground. We know that fostering development with justice and freedom are not empty words, but actual goals that we can achieve. To reach them, we only have to learn how to work together.

Like never before, we now feel that disunity, hate, and fear have been left in the past. A past which lives on for those who would like Chile to change, but only as long as they themselves do not have to change – those who will not part with their egos and their bickering for the good of the country, those who have made arrogance and fear their only platform.

Seventeen years after our return to democratic rule, we Chileans have come of age. We are free and autonomous; we are able to look after ourselves. We no longer need protective parents to tell us what we should think, dream, or do. We are prepared to maturely seek to achieve justice and prosperity for everyone in Chile.

My candidacy was the result of a spontaneous outpouring of citizen support. It was not the result of closed-door negotiations, or of party meetings. This Program reflects the popular origins of my candidacy. Hundreds of people contributed to its making, by participating either in working groups or in the public debates that were held with the citizenry.

It is a Program that speaks to the needs of Chileans who are not usually featured in newspaper of television commentary, nor can hire influential law firms. It speaks to the needs of those Chileans who have no relatives or in-laws in the state apparatus, or in Congress, or in labor unions, or in the corridors of power.

I have been often criticized for trying so hard to consult with the people, to get them involved. For the elite, to listen to the people is to show weakness. I, on the contrary, am convinced that this is the source of our strength to do what we are doing: for the most important Chilean resource is not copper, fruit or forestry, but its people.

I want to leverage the wealth that is to be found in Chileans' ingenuity, in their dreams, in their determination. More ideas, more work, more strength, more wealth.

This Program of Government intends to be worthy of such potential. This is why it is at once ambitious and realistic. We all know the problems we will have to face are not easy, and that they will not be solved overnight. My only promise as head of Government is to help with all my strength and of my ability to create a society where no one may say that he or she "was not able" or – worse still – "was not allowed" to achieve something.

In order to achieve this central goal, we need to increase our investment in education, from preschools to universities. At the same time, we must apply for ourselves the clearest, most stringent standards of education excellence. We must eliminate authoritarian enclaves in schools, and apply programs and plans that strengthen students' research and creative abilities.

We need to take a giant leap in the field of social security: better pensions, more generous unemployment insurance, and minimum health standards for all Chileans. For it is immoral that many Chileans do not have the right to grow old or ill without falling into dire poverty.

It is immoral that so many middle-class families should live in fear that some unexpected event may cost them everything they have achieved through long years of toil.

We need to continue on a secure path to economic development, one that is based on earnestness and in balanced budget – but one that does not prevent us from helping those left behind who need our assistance.

We have to break the invisible borders that crime has drawn all over our city, we have to train more and better police officers, both Carabineros and Investigative bodies. We need to continue to deepen judicial and prison reform.

We need to make our state more productive, and to improve its treatment of people. No longer should Chileans feel alone and helpless in towns where although there are institutions such as a mayorship, a hospital, a health care center, a primary or secondary school, these institutions give them the runaround, neglect them, or patently put them down.

We need women not only to have the same rights as men, but also to be able – through effective policy support measures – to actually enjoy exercising those rights. That a woman may become President should not be regarded as something strange, but as a good omen.

We need to create new freedom spaces to give a voice to a plural and diverse Chile where all of us feel at ease and recriminations and arrogance are no more.

How should we achieve all of this? This program is full of real numbers, of concrete measures we should take. This program is at once a compass and a navigation chart to show us the way.

As I read this Program of Government once more, I recall the faces and voices of so many Chileans I have come to meet over the last few months. These are Chileans whose lives are a daily struggle against many difficulties. They work more than twelve hours a day and they sometimes don't know how they will make ends meet at the end of the month. But these are the people who always tell me "doctor, we believe in you".

The trust so many people placed in me humbles me and makes me keenly aware of my responsibilities. Like them, I believe more in people than in speeches, polls, or figures. Trusting people has always been central to me and to the work I do. This will also be the driving thrust pushing the new Chile we shall build together.

My quest is none other than to open up opportunities for all Chileans so that Chile belongs to everyone and everyone can belong in Chile. The keys to the future are not in anyone's hands in particular. They belong to everyone. By working together we will be able to change things, and to see a better country eye to eye. It is for me a privilege to be able to serve Chileans in this new, fertile spring.

## Introduction

The Program of Government is the outcome of a significant amount of thought, which involved the direct and indirect contributions of several thousand people.

It all started with the "Citizen Dialogue" public debates that the candidate held throughout the country over the last twelve months. It then continued through the effort of the one hundred or so Working Groups that submitted proposals to the two candidates that were then competing to obtain the Concertación's presidential race nomination. The Concertación parties' technical committees offered more contributions. These parties also formulated a unified Programmatic Manifesto, the principles of which have been adopted by this Program of Government. In the months leading to the elections, Concertación parties and hundreds of independents contributed their professional and technical work to fifty committees, whose preliminary conclusions were also taken into account in the following document.

This Program aims at fulfilling the citizenry's demand to move on to new stage of development.

After fifteen years of successfully consolidating a democracy devoid of qualifying adjectives, of achieving annual economic growth rates twice as high as those of the Pinochet government, and of significantly reducing poverty levels, we need to go to the next level.

At this stage in our national development, we have to make sure our economy continues to grow. If we continue to grow over the next decade at the same rates that Concertación has brought since 1990, we will reach the income levels of countries such as Spain or Portugal. This prosperity will open the way for us to leave poverty behind, and to greatly improve Chileans' living standards.

However, this is only one of the challenges we face.

While opportunities multiply in Chile and in all countries undergoing globalization, risks are also on the rise. Therefore, there are now growing pressures for a more nurturing country, which is able to reduce economic risk and insecurity for large sections of the population. These include not only the poor, but also parts of the middle class.

Inequality is Chile is still unacceptably high. And inequality is actually made up of many types of inequalities. There is inequality between men and women, between the various ethnic groups, between rich and poor, between large and small companies, between the educated and the uneducated, between dynamic and backward regions.

Reducing inequality has been at the heart of every Concertación administration. We have tried to reform Chile's development model, to make it more humane, and to reduce its attendant uncertainties. We have tried to reach a better balance between economic expansion and social equity.

Our successful track record notwithstanding, the task is still unfulfilled. As we continue to seek to fully integrate Chile into the world economy, it becomes ever more urgent to reduce inequality and to protect our people – by means of a social safety net – and our economy from the shocks that affect the international economy.

Globalization endows the largest firms with more advantages and opportunities, to the detriment of small- and medium-sized businesses. Market concentration may thus become the dark side of this process, threatening free competition and the interests of citizens and consumers. A modern economy fights and punishes anticompetitive practices.

International integration is not the same as losing one's own identity. We Chileans, as well as the citizens of many other countries, want to strengthen our local and regional identity, want power to be decentralized, want authorities to enhance their interface with us, and to and to increase our level of participation. None of this will take place by itself in a globalized market economy. This model must be corrected.

Democracy and economic growth bring opportunities. These opportunities should not be denied through prejudice and discrimination. Chile is all of us. That is why we want progress for everyone, not only for a few.

The Chilean democratic project is an internationally recognized success story. We can improve it even more. We must build a more democratic, more participatory, less unequal society. We must enhance Chilean freedoms, and discard recriminations or fear.

Chile is our home. That is why we want Chile to be friendly and nurturing, a country that creates links among its people.

Chileans want a new, different kind of leadership. We want a more transparent state, one that makes information available to everyone – not only to those who have friends in high places. We want a Government that places a premium on diversity and equality, one that all of us may feel represented by.

This Program identifies five major issue areas, which correspond to the new administration's priorities: a new social protection network; preparing for a development leap; improving the quality of life of Chileans; fighting discrimination and exclusion; and adopting a new attitude toward the citizenry at every level of public activity. The Program closes by advancing a proposal concerning the role Chile should play in the world in this new phase of development.

## A new development policy

Chile's return to the path that leads to solid growth is based on strong institutional, political, and economic foundations – and on the high prices of copper. Today we have the opportunity to transform a potentially transient thrust into a sustained development factor. We should consider the example of resource-rich countries such as Finland, Sweden, New Zealand, and Australia.

Chile must innovate on the basis of its comparative advantages, investing in science, applied technology, and human resources.

It goes without saying that we should continue to export copper, wine, and salmon. But we should also vie to export – as is already the case in some areas – software for the mining industry, grape-growing improvement techniques, and treatments for diseases that affect salmon.

The Concertación administrations have consistently promoted scientific research, technological development, and productive innovation. The administration of President Lagos launched the National Policy for the Development of Biotechnology, as well as the Digital Agenda. Over the last few years, public funds to support innovation and technology have seen a strong growth.

Nevertheless, the Chilean national innovation system still faces various funding problems, which require new, creative solutions. Aggregate spending on Research and Development (R&D) is low, and the private sector's share of that effort is small. Furthermore, our technology dissemination and transfer mechanisms are unsatisfactory.

Chile's scientific and technological capabilities are not enough, and even those we have are dispersed across multiple small-scale initiatives. R&D results are not adequately valued or protected by means of patents or other mechanisms. This negatively impacts the business potential of new products and technological processes.

There is no formal public organ endowed with the authority to coordinate and establish general guidelines for the National Innovation System, or to assess it or monitor its consistency. There is a clear need for public policy in this field, in light of externalities, of potential coordination problems, and various types of market failure experts have known for a long time.

In August 2005, the National Congress received a bill that creates an Innovation for Competitiveness Fund (ICF). This bill creates a Council for Competitive Innovation and endows it with the responsibility of formulating and proposing a long-term strategy to the President of the Republic, as well as with suggesting ICF spending on an annual basis.

Our administration has set for itself the challenge of implementing this new institutional design, and to formulate a science, technology, and innovation policy that creates a clear, coherent, and stable economic-incentive and institutional regime which articulates itself with first-rate human capital, and with a strong innovation ability, with a view to creating productive chains on the basis of the comparative advantages Chile enjoys. We do not intend to make small, marginal changes. We will create a New Development Policy.

## Innovation for competitiveness council

We will establish the Innovation for Competitiveness Council, and endow it with a mixed, public-private membership. Members will advise the President of the Republic on science policy, advanced human-resource training policy, and technology development, dissemination, and transfer policy. The Council shall become a locus for institutional and policy systematic assessment and coordination in the area of innovation for competitiveness.

We will implement the National Innovation for Competitiveness Strategy, which the Council will propose. Such strategy will set itself a long-term horizon. Its formulation will be open to wide-ranging participation.

We shall improve the institutional aspects of the National Innovation System in the first six months of the incoming administration. We will clearly define responsibilities for the design and coordination of pro-active policies devoted to the knowledge economy. The implementation of specific programs will be clearly differentiated from such policy responsibilities as the fostering of a knowledge economy.

We will start up the Innovation for Competitiveness Fund, which will fund initiatives in the fields of science, advanced human-resources training, and technology development, transfer, and dissemination, with a view to increasing the competitiveness of Chile and of its regions. We shall supplement this Fund with additional resources, thus increasing by 50 percent government spending on Research and Development. Our goal is to increase the country's investments in R&D to over one percent of GDP by Chile's Bicentennial.

We shall strengthen the clearly successful initiatives of Fundación Chile regarding the innovation process and the introduction of new products into our export roster.

We shall transfer all innovation-oriented public program funds to the institutions in charge of implementing them by way of contracts that will clearly state the expected results.

Such contracts will stipulate rigorous assessment practices, as well as specific performance-related consequences for the implementing institutions. Non-performing programs will be closed down or reorganized; successful programs will qualify for additional funding.

We will require private-sector contributions for all applied-research funding programs, so as to ensure the relevance of those efforts. This is of the essence to close the R&D spending deficit, which is not so much due to a lack of public funding as it is to limited private-sector research spending.

We shall achieve enhanced results out of public funding for university research. With this goal in mind, we shall establish patenting goals for basic research undertaken at universities that receive direct funding to support applied research. These goals shall be assessed, and future state funding for such research will be allocated on the basis of performance.

## Business innovation

We will expand financial support mechanisms for specific innovation projects – and will increase the flexibility of such mechanisms. Our aim is to make those mechanisms available to more firms and to extend their coverage to every stage in the innovation process. We shall allocate priority to the new activities, products, and businesses that show the greatest growth potential.

We shall continue to operate business technology consortia for innovation, and will expand them.

We will thereby encourage long-term alliances between research institutions and the business sector with a view to implementing research, development, and innovation initiatives. These alliances will enable us to tackle productive problems and opportunities by using the most advanced technological tools.

## Science, technology, and innovation

We shall implement initiatives that allow Chile to harness the human, technical, and institutional capabilities that are required in order to tackle ambitious initiatives in the field of innovation.

We shall launch major investments in human-resource training, especially with a view to expanding graduate study opportunities for scientists and engineers, both in Chile and abroad. Our goal over the next four years is to increase by 100 percent the ranks of Chilean scientists and engineers obtaining graduate degrees abroad. We shall also strengthen programs that encourage hiring graduates at the Masters and Doctoral levels by private companies.

We shall also launch initiatives with a view to strengthening science and math teaching at school.

We shall increase the quality and the relevance of domestic research. We shall strengthen and expand the high–level research centers that are undertaking high-quality research that is of strategic importance for Chilean development. We shall attribute a high degree of priority to establishing and improving international cooperative research networks that enable Chilean researchers to gain access to the frontiers of knowledge in those areas.

We shall allocate a significant portion of public funding in this area with a view to establishing, expanding, or strengthening regional innovation capabilities in strategic areas for regional growth.

## Technology and the small – and medium–sized enterprise

We shall bring small – and medium–sized firms to contribute to our efforts at innovation, by means of a technology outreach network to support them. We shall go back to this point when we discuss the Enhancing Entrepeneurship in Chile Program (Programa Más Emprendimiento para Chile).

We shall establish a national policy to foster quality improvements, and to support the adoption of quality management and certification models applying international standards for small- and medium-sized companies.

We shall strengthen the regulatory and technological framework supporting quality management. We shall improve and expand the availability of technical standards and strengthen the national metrology network.

## Fostering innovative entrepeneurship

The creative process does not stop at a scientific discovery, or at the development of a new product, or at the establishment of a new production technique.

The culmination of technology innovation is bringing value to results by introducing them into the market. Public-sector support at the startup stage is of the essence, especially when startups create new markets.

We shall strengthen public mechanisms to financially support the early stages of innovative startup firms, improving and expanding technology business incubator programs, as well as seed- and venture-capital programs.

We shall support the establishment and early implementation stages of technology-management and -transfer institutions that will perform interface functions between research institutions and the business sector. These institutions will support technology-based firms by transferring R&D results to market. They shall also instill more relevance into the research enterprise, guiding it according to the requirements of market demand.

We shall strongly push technology business dealings involving intellectual property rights by enhancing regulation and by partially subsidizing patent applications, especially abroad.

## High-technology investment attraction

Chile must harness the opportunity afforded by the trend on the part of transnational firms to locate their production, services, or product development units in low-income countries. Chile may thus jumpstart the acquisition of skills and competencies typical of highly innovation-intensive companies and productive systems.

We shall bring new sectors on board our effort to foster high-technology investment, and we will create a promotion network abroad. We will make support mechanisms more flexible, so as to increase our market's attractiveness to innovation-intensive international companies. We shall also train the skilled human resources such investors require by partnering with university consortia.

## Chile in the world

Ever since achieving democracy in 1990, we Chileans began a successful process to reposition ourselves on the international scene. We have made significant strides to re-establish Chile's good name as a democratic, republican nation that promotes free trade, abides by international law, and which defends its principles and interests in a dignified manner within the framework of the international order. The Concertación administrations have enhanced Chile's international standing and have made it a fully participant member of the international system.

In our times, globalization has become an undeniable paradigm that has guided the evolution of the international order for the last several years. The traditional logic of confrontation between geographical blocks or nation-states has been supplanted by segmentation on the basis of value beliefs. This change creates opportunities to nations such as ours. Chile is a small country, far removed from the centers of power, but it is committed to international integration that is based on the principles of liberty and democracy.

## International relations

Chile must establish its foreign policy priorities in the light of emerging realities, of its permanent geographic insertion, of its historical and cultural environment and of its new international status.

We must incorporate the phenomenon of globalization into our foreign policy by means of regional and international integration, of multilateralism, and of international cooperation.

## Governing globalization

We acknowledge globalization, the growing interdependence of nations and the forces that push for regional integration as major trends of our time. But for as long as globalization does not promote universal public goods, it will still lack governability and predictability. And there's no possible legitimation for globalization in the absence of governance.

We shall strongly support policies that promote the governance of globalization. International society currently faces its most important challenge: to build common institutions and principles that facilitate the task of governing globalization. In order to achieve this goal, we will foster the creation of an inclusive, transparent international order, which affords every nation clear rules that are equally valid for all.

## Neighborly relations

Our foreign policy will adopt the promotion of regional identity throughout Latin America as its center of gravity and its mark. Chile shares a common history and a common culture with the countries of this region, as well as common obstacles, interests, and goals.

The neighborly dimension of our foreign policy will be endowed with a prime strategic significance. We shall promote cooperation, especially in strategic areas such as fostering democracy, trade integration, transparency and honesty, and fighting the drug trade.

South America is Chile's fastest-growing export market for high-aggregate-value products. It also absorbs most of Chile's private investment abroad.

It is also the region with the highest potential for fostering cultural, economic, and tourist links. South America is where we will find our potential partners to develop energy, mining, or infrastructure projects.

We thus reaffirm Chile's commitment to the South American Community of Nations and to the South American Integration Initiative, with the purpose of furthering the development of regional infrastructure.

We resolutely support the development of the Energy Ring along with Peru, Argentina, Brazil, and Uruguay.

We intend to accentuate an atmosphere that is conducive to understanding with Bolivia. We will always be available to explore a wide-ranging dialogue, with no taboo areas, and to promote asymmetric economic agreements, including free-transit facilities. However, all of this is to be done on the basis of respect for existing border agreements.

We shall strengthen our cooperation alliance with Peru.

We shall continue to foster trade, widening and deepening the dimensions of our trade agreement, to facilitate the movement of persons, and to promote confidence-building measures between our armed forces.

We shall consolidate the auspicious political association we have established with Argentina. We shall continue to deepen the bilateral relationship, which encompasses a great number of major issues. Among these, we shall attribute priority to energy, infrastructure, transportation, armed-forces confidence-building measures, as well as trade and economic issues.

## Promoting multilateralism

Chile's relative size is a conditioning factor for its foreign policy. We shall thus promote multilateralism, the observance of international law, the peaceful resolution of controversies, the sanctity of treaties, and the promotion of international humanitarian law.

Multilateralism is a strategic commitment of Chilean foreign policy at the subregional (Mercosur), regional (Rio Group, OAS), and also and most especially, at the global level (UN, WTO). We shall strengthen the active role that Chile plays in the main organs of the United Nations system, and we will contribute to strengthening the UN. We shall seek to associate ourselves with countries with which we share "common criteria" that allow us to maximize results on behalf of our foreign policy key objectives: peace, human rights, fighting poverty, and abolishing discriminatory barriers to international trade.

## More markets, better trade rules

International trade is of the essence for Chile's development. Our country's economic integration advances over the last 15 years are unprecedented. Starting in the 1990's, Concertación administrations took great strides in negotiating trade-opening agreements with Latin American countries. Since the beginning of the current decade, Chile has focused itself on negotiating free-trade agreements with the United States, the European Union, EFTA, the Republic of Korea, and Oceania. At the same time, we have played and active role in every WTO, Apec, and Lafta trade initiative.

At the multilateral level, our priority shall be the conclusion of the Doha Round of negotiations under the aegis of the World Trade Organization. These negotiations should enable us to reach a multilateral trade system that is fair, that has clear rules, and, in particular, that reduces and eliminates agricultural subsidies.

A solid network of trade agreements has opened new horizons for the growth of our country and of our businesses. To fully harness this potential, we still need more effort on the part of the state and of the private sector. Thus, the adequate management and guidance of existing agreements will be a key task for our administration. We shall fulfill it in close consultation with our domestic international trade operators.

## Priority Objectives

At the same time we devote ourselves to the major objective of strengthening our links with Latin America, we shall attribute priority status to our relations with the emerging countries in Asia – which share our interests and are at a similar stage of development –, and with the United States.

## Looking to the east

An ascendant Asia is a fact. China is already Brazil's second largest trade partner, and it is Chile's second largest export market. We shall thus invest more time, attention, and diplomatic resources to strengthen our economic, political, and cultural ties with this natural partner, both bilaterally and under the aegis of Apec.

We shall realize Chile's potential as an investment platform for Asia and the Pacific. Once trade agreements now being negotiated with China and India are in place, the virtuous link with Asia will grow. This may also apply to Japan. Such a virtuous link could incorporate political, diplomatic, and cultural dimensions.

## Shared interests

Certain countries, such as New Zealand, Ireland, Canada, and Australia, as well as some Efta members, such as Switzerland and Norway, are far away from Chile geographically, but they do share our trade and investment interests. Moreover, they also share our democratic political orientation, and our humanitarian values. We shall accord these countries special relevance, both bilaterally and multilaterally.

A key case in point is the European Union. Our political association agreement has already bore fruit. The EU is keen on defending and promoting democracy and human rights, rejecting the death penalty, abiding by international law, multilateralism, and on implementing cooperation policies with a view to fostering development. These priorities are fundamental elements shared by Chile and EU countries. Therefore, we shall widen our political dialogue with the EU, as is currently the case, for instance, in the context of peace operations.

## Our relationship with the United States

We share fundamental foreign policy values and goals with the United Status, such as democracy, the protection of human rights, and a more liberalized international trade. This does not mean we will not hold diverging political views on specific topical issues. We shall continue to consolidate our relationship with the United States. We shall do this in the context of the Summit for the Americas – on the basis of shared democratic values – and of the creation of a Latin America Free Trade Area.

## Promoting a human-rights based foreign policy

No foreign policy limits itself to pragmatism and power considerations. For Chile, promoting and protecting democracy and human rights is a national-security issue. It is an ethical commitment because of our history, but it is also a symbolic commitment that has afforded Chile international prestige and respect over the last few years.

On the issue of human rights, we shall strongly support the implementation of the UN Human Rights Council, which was established at the recent UN Summit. Our goal is to have a more credible, less politicized organ in the service of human rights than the present Geneva Committee.

We shall continue to promote the right to democracy at the regional and global levels. We shall therefore play an active role in the community of democracies.

International justice is a requirement of globalized society. We shall support the concept of "protective responsibility" on the part of the international community in relation to crimes of war and against humanity, genocide, and ethnic cleansing.

We shall promote the ratification of the Rome Statute that established the International Penal Court.

## Cooperation as a foreign policy instrument

Cooperation policy must be considered to be an essential component of our foreign policy and as an effective instrument to fulfill its goals. We shall strengthen our aid to those countries in our region that require technical and assistance cooperation. To the extent that globalization creates opportunities for Chile, our country shall also take on increased responsibilities in the face of the challenges that globalization creates.

## Chile's more permanent interests

Administrations must look far into the future, and they must focus on the immediate international scene. But it is important not to leave aside the continuity of key areas: for Chile, these are the issues concerning the Law of the Sea and its resources, our interests in Antarctica, our commitment to sustainable development, and the reaffirmation of our sovereignty over Easter Island, which is a vital link toward the Asia-Pacific region.

As an essentially maritime country, Chile must continue to safeguard its permanent interests concerning the sea and sea resources. We must protect our maritime borders under the aegis of international law. We shall continue to safeguard high-seas fisheries adjacent to our exclusive economic zone. We must continue to fight illicit, undeclared, and unregulated fishing through adequate measures. Chile will continue its policy of consolidating and strengthening its presence in the region that projects itself towards the South Pole, as well as the promotion of the purposes and the principles of the Antarctic Treaty and its complementary instruments.

The Chilean commitment to sustainable development will require our continuing observance of the Rio Principles, the full implementation of Agenda 21, the Johannesburg Declaration on Sustainable Development, and the Johannesburg Plan of Implementation.

## A new institutional framework for foreign relations

Foreign policy has come to be an increasingly influential determinant of domestic policy. It has ceased to be a merely representative or diplomatic issue to become a fundamental tool for our development strategy. In order to achieve the goals we are setting for ourselves, we shall modernize the Ministry of Foreign Affairs and International Trade.

The internationalization of the economy and the design of public policy in a globalized world have ended the monopoly on international contacts that was previously wielded by foreign-affairs ministries. In the face of this new fact, we shall strengthen our own Ministry of Foreign Affairs so that it can institutionally provide cross-section insights relevant to other state departments, as well as to civil society and of the private sector.

Taking into account the plethora of issues and their simultaneous tackling at multilateral fora and other negotiation spaces, we need an institution that is able to endow its representatives to various negotiating environments with adequate formal ranks. This need is apparent in trade negotiations as well as in political negotiations. Therefore, we will create the office of Undersecretary for Foreign Trade at-large.

We shall also adapt the Ministry's Directorates to the wide-ranging issues of today's international agenda. The newly internationalized dimension of issues such as the environment, the fight against organized crime and the drug trade, as well as science and technology issues, shows the need to adopt adequate, flexible institutional solutions.

At the same time such institutional change is implemented, we shall strengthen the professionalism of our Foreign Service, and we will strongly support it from Santiago. We will modernize management and bring on board non-diplomatic professional workers. We will enhance the standing of qualified ambassadors, and will ensure that Foreign Service members play a relevant role. We shall also promote a substantial increase in the number of female diplomats.

### The First 100 Days Plan

Employment

1. We will raise the age for on-the-job training benefits eligibility to 25; we will increase those benefits to 50 percent of the minimum wage.

2. We will propose legislation mandating the government to shoulder a portion of social security payments by low-income youths who hold formal work contracts.

3. We will allow employers to hire youths on the basis of hourly work contracts, to afford every student who also wishes to work an opportunity to do so.

Social Security

4. We will raise the lowest retirement benefits using the current budget's $300 million discretionary spending funds – this will benefit one million pensioners.

5. We will establish automatic eligibility for Supplementary Pensions (Pensión Asistencial) at age 65; this type of pension will become a right, and it will no longer be subject to waiting lists.

6. We will propose legislation that ensures family benefits are paid to mothers; we will also create subsidies for persons providing care for the disabled or for bedridden seniors.

Education

7. We will subsidize day-care for all children under four from the neediest 40 percent of Chilean households.

8. We will create 20,000 new openings at the pre-kindergarten level and will set up 800 new infant care centers throughout Chile, benefiting 20 thousand girls and boys.

9. We will push for urgent approval of pending legislation on differentiated subsidies, with a view to doubling subsidies that directly benefit more than 400,000 children from pre-kindergarten to fourth grade.

10. We will expand from 110 thousand to 160 thousand the number of students receiving loans and grants for higher education. We will thus ensure that the tuition fees of the neediest 60 percent of students are fully covered.

11. The various university scholarship programs will be consolidated into a national scholarship system that will cover both tuition fees and living expenses.

12. Student loan recipients will be given the option of fully or partially repaying their loans by doing community work in the various Chilean regions.

Women Issues

13. We will enact a Code concerning Non-Discrimination and Best Labor Practices in the Public Sector, which the private sector may adopt on a voluntary

basis. We want to put an end to discrimination against women – and against any Chilean citizen – in the workplace.

14. I will propose legislation that will make childcare services in the workplace a right for all working women.

Health

15. We will create sixty new Community Healthcare Centers throughout Chile, with an emphasis on those localities where health-care needs are growing faster.

16. We will increase the number of illnesses covered by the Explicitly Guaranteed Universal Health Access Plan (AUGE) to 40.

17. We will guarantee free medical care in public hospitals to all those aged 60 and over.

Public Safety

18. We will create a Ministry of Public Safety, which will be entrusted with coordinating all state law enforcement agencies, as well as crime fighting and prevention policies.

19. We will expand the Carabineros police force by 1,500 new officers a year; these officers will be assigned to districts with the greatest need for police work.

20. We will encourage employers to hire at-risk youths by subsidizing their salaries by up to 50 percent of the minimum wage for one year.

Entrepreneurship and Competitiveness

21. We will launch a new entrepreneur support program providing one-stop support services, which will range from computer literacy training and accounting help to assistance in obtaining startup funding, bureaucratic paperwork facilitation, and personalized management consultancy for the startup's ramping-up.

22. We will propose legislation establishing the simplified taxation plan for Small and Medium-size Enterprises, as was laid out in Michelle Bachelet's electoral platform.

23. We shall ensure that the government settle its accounts with contractors within 30 days at the latest.

24. We will propose legislation increasing penalties for white-collar crimes and doubling enforcement funding.

25. We will establish a fund to allow individuals over 40 who lose their jobs a chance to reposition themselves in the labor market, either by acquiring new job skills or by starting their own small businesses.

Chile Prepares for Globalization

26. We will require everyone studying to be an English teacher to study for one semester in an English-speaking country, at government expense.

27. We will create a new exchange program that encourages more English-speaking teachers to come and teach in Chile.

28. We will implement a funding program that will allow the top 1,000 Chilean university graduates to pursue doctoral degrees in the world's best universities.

Urban Areas and the Environment

29. We will launch a wide-ranging urban renovation program, which will be deployed in the 200 Chilean neighborhoods most in need of improvement. This will benefit such needy areas as El Volcan (Puente Alto), Santa Adriana (La Florida) and Villa Portales (Quinta Normal) in Santiago; Boca Sur and Pedro de Valdivia Bajo in Greater Concepción: and Valparaíso's Placilla or Rodelillo neighborhoods.

30. For the first time in Chilean history, we will appoint a cabinet-ranking Minister of the Environment.

Chilean Regions

31. We will implement the "More Jobs" Program in Valparaíso. Similar programs will be implemented in Talcahuano and San Antonio, to support these cities in facing the structural changes their economies are going through.

32. We shall establish new Regional Development Agencies throughout the country, which will be endowed with provincial bureaus.

The Military Service

33. We will begin a transition towards an all-volunteer, professional military corps by increasing the number of professional soldiers to two thousand and recruiting one thousand female volunteers.

34. We will create a new Citizen Service Program as an alternative to current compulsory military service. This program will afford youths from different social backgrounds an opportunity to interact and to contribute with high-impact social services to the various communities.

Improving Democracy

35. We will replace the current binomial electoral system with an electoral system that will ensure improved competition, governance, and representation.

36. We will establish automatic voter registration beginning at age 18. DEP

# The trap of bilateralism

*Germán Umaña Mendoza**

## Introduction

This paper offers a brief reflection on the role and influence of the academe in respect of trade policy decisions. It focuses specifically on what we have called the trap of bilateralism, which is often confused with free trade, particularly in Colombia, a country that has chosen this path, thereby distancing itself more and more, in the author's view, from a balanced, equitable, and symmetrical participation in the international environment and in the economic globalization context.

### 1. The shortcomings of theory for decision-making in a trade-globalization setting

A major concern of college professors is to teach their students the theory, behavior, and practice of international trade. Unfortunately, theoretical tools can explain only partially the political economy that governs relations between regions and countries.

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Although this statement seems to meet with general agreement, dogmas about the virtues of free trade are often put forward and disseminated, with the backing of academic circles, to justify economic policy decisions allegedly backed by theory.

Let us take a brief look into the views of camps on the opposite ends of the spectrum. The predominant view is that everybody gains from free trade as, although no one enjoys absolute advantage, there is the possibility of comparative advantages whereby the countries can specialize in what they can do best and most competitively. As a result, world trade will grow and the benefits of welfare will be maximized in every country and region.

The theoretical extremes speak of convergence or divergence trends in the distribution of world income. Those who see convergence start from the assumption of constant yields of scale, and decreasing capital gains, which means that when certain rich countries and regions conclude their accumulation processes and reach a limit in the growth of profits, given that production functions remain the same, a shifting of investments toward countries and regions where profit margins are more attractive and salaries are lower will automatic occur.

Poorer countries and regions will thus receive new investments and grow at a more rapid pace than richer countries and regions, leading to a narrowing of the gap and reinforcement of the trend toward convergence in income distribution.

Others claim that profits owing to economies of scale are constant and rising, production functions are different, and thus there are no limits to the accumulation of capital in the regions, countries, and sectors. Consequently, there is no need to redirect investments toward poorer countries, as in the rich countries production increases and human capital development is faster than elsewhere. As a further consequence, the development gap widens, causing greater divergence instead of convergence of income distribution. This is in essence the position of Gunnar Myrdal, the Swedish Nobel prize laureate in economics, who back in the fifties expounded his theory on virtuous circles, to which the richest belong, and vicious circles, which encompass the poorer countries and regions.[1]

There have been many propositions in the areas of theory, mathematics, and empirical analysis but the basic arguments follow the tendencies described

[1] See Myrdal, Gunnar. Economic Theory and Underdeveloped Regions, London: Duckworth, 1957.

above and none manages to interpret reality with certainty. As always, assumptions serve to explain part of the phenomenon and to make one aware of its complexity. For some academicians, the solution is to shut themselves up in their glass boxes and to deepen their investigation, without bothering about real events, hoping some day to find the philosophers' stone someday. Others embrace one of the two interpretations and become fierce advocates of one or the other as well as political servants. Most, fortunately, are struck by the complexity of the matter and realize that the world moves between extremes and that the decisions by the countries or regions depend on the individuals who, faced with the markets' imperfections, must choose to apply one of the interpretations, whether pertinent or not, to the economy and politics. Indeed, this is political economy.

Essential is the fact that in today's world it is difficult to find an academician who is openly against trade globalization. Nevertheless, political economy in this globalized setting is marked by the actual limitation of the liberalization of factors and by the limits of imperfect competitiveness.

However, the complexity of the situation—as pointed out by Samuelson when he refers to Heckscher Ohlin's basic theorem: *a capital-abundant country will export the capital-intensive good*—consists in the fact that "in reality, factor prices equalizing does not happen because of the huge differences in resources, trade barriers, and international differences in technology." This is the crux of the matter.

Committed policy formulators—backed by certain power groups that are in turn strengthened by the dogmas disseminated by "supposed" academe representatives—care little if some countries face absolute disadvantage in nearly all or in all aspects, as in one or other aspect the disadvantage may be on a lesser scale and the latter will automatically become a comparative advantage. In justification of the country's tendency to specialization, relative prices will equalize and production with all the resources available will be maximized, owing to better allocation. As a result, the countries or regions as a whole will improve their welfare and income.

There is thus no other way than accepting free trade, as it will under any circumstances maximize world and national income and the countries' welfare. Not only free trade is the best, so is also inequality.

Different types of mathematical models have been developed, favoring one theory or the other, based on empirical evidence. But so far they have only shown their limitations, whether they are known by the concept of general or partial equilibrium with rising or declining income, or as gravitational models that take into account distance and other factors.

The truth is that despite the advances in economic theories and modeling, there persists a deep dearth of knowledge to fully explain the behavior of world trade.

I am aware that this is of little interest to the economic theorists, who consisently show the layman that their models attempt to approach reality but do not explain it in its entirety and that one has to start from a series of assumptions to arrive at a better interpretation. The fact is that the political economy of international trade displays a greater complexity pertaining to analysis and economic policy decisions and to their impact on wide segments of the population, thereby giving rise to new categories of world citizens divided between the excluded and the included, of rich and poor countries and regions as well as regional blocs. In this context, some fare better than others but for the majority the situation in which they have to live is increasingly worse. These are the wretched of the earth of whom Fanon speaks.[2]

This is a source of concern for some students of economic sciences with respect to the political economy of international trade and its consequences for the economic and social players.

To the internal factors that explain society's economic behavior—such as its political system and institutions, culture, income distribution, allocation of resources, and sustainable development, among many others—are added factors related to internationalization and globalization. It is not true that we are necessarily global players, that we have no history, or that everything in life is economy. Thus, decisions will be different in different social groups and the same applies to blocs, countries, and subnational regions.

The complexity of social relations pertaining to international production elicits the following reflection: if free trade means the free movement of factors in conditions of perfect competitiveness leading ultimately to equilibrium, when this does not exist, why is it consistently suggested to us that any trade agreement is the right way for participation in the international environment?

For some ideology-driven economists, multilateralism is the same as *plurilateralism* or bilateralism. They believe that integration objectives such as

[2] See Fanon, Frantz. The Wretched of the Earth, New York: Grove Weidenfeld, 1991.

political and monetary unions and common markets are the same as agreements on a mere liberalization of factors, that what is essential is to open up to the world willy-nilly, and that after this economic decision, rivers of milk and honey will flow. What is disturbing about this is that only some politicians in the developing world think this way, whereas the others think about the asymmetrical trade game and make their decisions accordingly.

Free trade raises many questions: Are we really moving toward the free movement of goods, services, capital, and natural persons? What is the influence of public policies? Are the legal security mechanisms appropriate for settling disputes? How are anticompetitive practices and abuse of market dominating positions controlled? Why are intellectual property, patents, trademarks, and author's rights privatized? What is actually the so-called free trade? The answer is obvious—there is no answer. Multilateralism so far is nothing but a fallacy. Hence, the degree of freedom to make decisions about how to participate in globalization varies and is determined by the economy and politics. Of course, interpretation will be complex and I do not pretend to know the truth. Allow me, though, to offer some thoughts on the issue.

## 2. What is trade globalization in the real world?

On the multilateral plane, trade logic has been marked by the progress—retrocession?—achieved in the Uruguay Round of the General Agreement on Tariffs and Trade –GATT, concluded in 1994, that led to the establishment of the World Trade Organization, which became operational in January 1995.

This logic provided a framework for multilateral relations in respect of factors liberalization, disciplines, and "legal security." It also widened the gap and asymmetries between countries and regions that possess knowledge and those that do not. This encompasses all that refers to the movement of goods and services, intellectual property, public policies related to the State, and dispute settlement.

The main achievement has been the imposition of multilateral higher limits (standstill) on the countries' freedom to restrict trade but there is no doubt that much remains to be done. The major barrier to the free movement of factors has been legalized, making scientific and technological development into private property and dealing with it in every known aspect as private property. Obviously, liberalization of the labor factor is practically nonexistent.

These limits were set in accordance with the principles involved in the application of the most-favored-nation clause and national treatment, and in the definition of binding dispute settlement mechanisms applicable to all that has been negotiated. In sensu stricto, it might be said that any additional concession made in negotiation would automatically apply to all countries and regions.

However, this does not happen. Exceptions are promptly made to these principles and, on this basis, regionalism begins to be promoted. At one point, this tendency seems to predominate. The success of the European Union—which manages to combine the establishment of a free trade zone with great freedom in the movement of goods, services, and natural persons, the formulation of common external policies on different subjects, the undeniable advances in macroeconomic harmonization, the definition of a common monetary policy, and the adoption of a common currency—seemed to serve on a platter the old continent's longed-for political union and the achievement of a common external policy. Today, many of these advances have been hurt by the difficulties encountered, related to problems arising from the admission of the former socialist countries, the possible inclusion of Turkey, the reemergence of xenophobia, as well as the seemingly unsustainable character of the welfare model owing to the old continent's low growth and productivity levels.

Latin America attempted to follow in this direction with the establishment of the Latin American Free Trade Association, intended to move forward toward a common market. Vain attempt! It was replaced by other smaller associations meant to accomplish the same thing—Mercosur, the Andean Community, the Central American Common Market. All of these, poorly consolidated, have proven failed attempts.

This weakness of the integration systems is coupled with political willfulness exemplified by presidential summits with no decision-making power vis-à-vis technocracies, which never, or almost never, enforce the presidents' decisions, as these technocracies represent mostly the interests of certain economic groups and have no qualms in negating political mandates because there is no determining power or influence in the countries involved. This results in a lack of credibility before society on the domestic front, which understandably becomes manifest in the search for new alternatives.

In turn, the developed countries have based their trade strategies toward the developing countries on the Generalized System of Preferences-GSP, a low-cost scheme restricted to tariffs, or according to unilateral preferences arising from compromises foreign to trade norms, such as the principle of counterpart responsibility in the fight against the universal scourge of drugs. Initially, GSP customs benefits were intensified but over time they increasingly became a way of making demands and imposing conditionalities on the countries, which seemingly benefited politically as well as in the economic and trade areas, particularly with respect to intellectual property and the so-called social clauses (labor and environment), and government procurement. This became a subreptitious manner of compromising these countries' independence in multilateral forums.

The new discretionary treatment dispensed by developed countries creates not only new asymmetries among underdeveloped countries but also a kind of competition for being closer to meeting the conditionalities on the part of those willing to be preference beneficiaries. A logical result is that the latter are the ones that denounce each other to the multilateral instances. This, in turn, debilitates the preference schemes just described.

Suffice it to recall in this regard the GSP drug preference granted by the European Union to Pakistan as a compensation for intervention in its favor in the Afghanistan war. India, with the support of other developing countries that do not benefit from the same preference, promptly denounced the system. When the GSP drug preference is submitted to the WTO dispute settlement body, the European Union immediately seizes this opportunity to reformulate its system to demand compliance with new conditions for benefiting from a special GSP that will replace the GSP drug preference. The new condition could be applied to all the countries that meet certain economic indicators showing that they are developing countries, provided they commit themselves to submit to certain bilateral certifications concerning different matters, particularly matters pertaining to legislation and to actual observance of international agreements on the environment and labor. This unilaterally introduces the social dumping issue, which could not have been introduced under the framework of the objectives of the first Round, which established the World Trade Organization (I still do not know whether the name is ironic or sarcastic).

The United States apply this same concept through schemes such as the Andean Trade Promotion and Drug Eradication Act-Atpdea, directed at the Andean countries, or those contemplating Central American or African countries. However, American interests related to the conditionalities are more varied and imposed on a case-by-case basis. In general, they are meant to ensure support for U.S. policy in multilateral forums and particularly to impose new, more numerous conditions regarding government procurement, intellectual property, and settlement of disputes about foreign investment.

It is obvious that under the circumstances just described—advances in multilateralism, in deep integration proposals, such as those of the European Union and of Latin America, as well as the inappropriately called unilateral preferences—the scenario is ready for the development of bilateralism.

There seems to be a tendency to eliminate unilateral preferences, under which the beneficiary states have already accepted the conditionalities described, and to resort straightaway to bilateral negotiations that include issues of interest to the developed countries with respect to legal security for their investments and investors but do not include key aspects of further trade liberalization regarding goods and services, under the allegation that these issues should be dealt with in a broader, multilateral context.

## 3. And thus we arrive at the "bilateral trap"

For analyzing this issue it is sufficient to look further into the advances of multilateralism in the form of free trade under the new institutional, normative WTO framework.

### 3.1 Foreign direct investment in goods, services, and portfolio capital

Let us first address the investment issue. Asked to classify investments, a professor would rightly answer: foreign direct investment in goods and services, in portfolio capital, and in knowledge capital. Asked about the limits within which the free flow of investment can function, the same professor would also rightly answer: there must be legal security, prevention of expropriation or violation of the principles embodied in the national treatment of foreign investors, and application of the most-favored-nation clause to the others.

Some warier masters, though, particularly older ones, would immediately recall that there is such thing as imperfect competition, and would say: One should not forget that a very important role must also be played by the government and by multilateral norms in preventing abuse of a dominating market position when monopolies and oligopolies do exist. This means the introduction of the regulatory theory, of independent control commissions. It means, in sum, the setting of norms for advanced, full-fledged competition.

In a multilateral setting, capitals should move freely. However, given the lack of consistent, strong multilateral norms, capital control practices arise, performance requirements are imposed on countries on the receiving-end of foreign investment, and there is no regulated, binding legislation to provide real legal security for investors.

The Oecd attempted to solve all this with the well-known proposal of a Multilateral Investment Agreement – MAI, to which the developing countries were opposed. The failed proposal was followed by the Bilateral Investment Protection Treaties-BITs and the establishment of the International Center for the Settlement of Investment Disputes – Icsid, sponsored by the World Bank, to solve disputes that might arise on this subject.

And… Eureka! These bilateral treaties achieve two objectives: the free flow of investments, and the elimination of restrictions, coupled with the legal obligation of countries through binding, mandatory dispute settlement mechanisms. The only problem is that capital exporters are almost exclusively developed, not developing countries.

Under these agreements, countries partially or wholly give up capital control practices and discriminating between domestic and foreign investors; foreign investments are protected from eventual legislation changes; rules are set for the settling of disputes, usually in the Icisid; protection is extended to alleged attempts to make investment based on the preestablishment principle, which grants protection from national legislation changes to potential investors who visit the country with a proposal for any spurious project.

Nevertheless, there are no common bilateral commitments for setting competition norms capable of checking abuses of market position by those who can adopt monopolistic or oligopolistic behavior with respect to prices.

Moreover, it is common to replace the political power of old domestic investors with that of multinationals. National legislation on competition, in the case of developing countries early on in agreement negotiations, is fragile and insufficient and cannot be changed because not only protection norms are fixed but also because of norms related to what the “infamy experts” call detrimental to profits and the so-called indirect expropriation.

### 3.2 Knowledge capital investment

In addition, with respect to knowledge capital, as a product of the Uruguay Round and the World Trade Organization, many of the norms established under the Paris and Berne Conventions on intellectual property have been raised to the category of trade agreements, with authors’ rights being attached to data banks and software as well as to cultural industries. Minimum protection periods have been established for, among other things, patents (20 years) and authors’ rights (50 years) and norms have been proposed for the settlement of disputes arising from these conventions.

One needs not be too sharp to realize that these monopolistic terms are contrary to the free movement of knowledge capital. The developed countries hold 95 percent of patents, while cultural and information industries not only are the most powerful but also show the fastest growth.

Subsequently to the Uruguay Round, progress was made in the Doha Declaration toward clarifying that public health crises have preeminence over intellectual property rights, and mechanisms were proposed to this effect. Unfortunately, under bilateral treaties this is negated and not only the practice of patentability terms is expanded but also greater protection is granted pharmaceutical and agrochemical multinationals with respect to test data, the patenting of plants and animals is permitted, authors’ rights in the area of cultural and information industries are expanded, intellectual property right is granted for the geostationary orbit, mechanisms for strengthening control of norms established in this area multiply, the patenting of products obtained from biodiversity is permitted, and so many other things. Of course, issues such as protection of traditional knowledge and biodiversity are not considered for developing countries.

Two recent examples corroborate our assertions. In the case of the US-Chile Free Trade Agreement, norms on trade-related aspects of intellectual property rights (Trips-plus) have been subscribed to.

The Trips-plus regime applied by Chile under the US-Chile FTA covers several areas, including the signing of international conventions, in respect of which Chile relinquished its obligation to ratify various agreements such as the

International Union for the Protection of New Varieties of Plants – Upov Act (1991), the Brussels Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite, and the Patent Cooperation Treaty – PCT. Moreover, Chile agreed to the extension of patent terms and the establishing of patents for plants and of dissuasive sanctions against piracy and criminal falsification, and ceded on aspects related to authors' rights.[3] It further agreed to implement measures aimed at enforcing Internet rights, such as the recognition of the exclusive rights of authors, writers, and composers to post their works online; to extend the terms of protection of works and phonographs so as to match those of the United States; and committed the government not to use illegal software. The agreement also ensured the granting of national treatment without exception to digital products and defined the conditions for achieving the settlement of disputes related to domain names and preventing trademark piracy in cyberspace.

In the matter of patents, there was the requirement to extend the protection term to offset unwarranted administrative delays in granting patents, something the Chilean legislation sees as a mere adjustment of terms, thereby following the US standards and lowering TRIP parameters. The concession of obligatory licenses was restricted and procedures limiting the introduction of generics were established.

In addition, Chile agreed to limit the use of unpublished information of patentable pharmaceutical substances, such as the information received when sanitary registration is granted. Protection of unpublished information in the case of pharmaceutical and agrochemical products is quite strict.

A further example, under the Central American Free Trade Agreement-Cafta, recently ratified by the US Congress: all has been summed up in the emotional statement by Ambassador Zoellick, the US Trade Representative, about the negotiations on intellectual property with Central America: protection and nondiscriminatory treatment for US-made digital products—software, music, texts, and videos; protection for patented products and trademarks; and reinforcement of industrial secrets. During the negotiations, the gradual inclusion of Central American countries in the different international agreements was agreed.[4]

[3] Núñez de H., V. "Cultura vs Propiedad". El diario de hoy, elsalvador.com, 20 December 2002.
[4] Zoellick, R. B. Address from the Office of the United States Trade Representative, Executive Office of the President, 2003.

It was further agreed to extend the validity of pharmaceutical patents to more than twenty years and to prohibit the registration (or marketing authorization) of generic drugs in case a registered, patented version of the product in question is available in the country. In addition, the Central American countries agree to grant additional marketing exclusivity rights and to prohibit pharmaceutical authorities to use the original data of the pharmaceutical tests, which are needed to register generic drugs (data exclusivity), and to limit the entry and the competition of generics.

The provisions pertaining to registration or marketing authorization are equally strict. Under the Cafta, if a medication is registered in one of the region's countries, the registration of a corresponding generic is prohibited for five years, even if the medication is not patented, and until the expiration of an existing patent. Differently from what happens in relation to patents, in which case the authorities may issue mandatory licenses, there is no mechanism to safeguard the provisions that limit pharmaceutical registration.[5]

As if the preceding were little, internal legal norms are reinforced. Likewise, the recourse to international settlement of disputes is also intensified as a way of controlling the bilateral agreements, and competition rules are equally reinforced to prevent dominating position abuses. Should this occur again, it could be considered an affront to the legitimate profit expectations of the holders of the intellectual property, and would be subject to sanctions under international norms.

### 3.3 Services

Services were not an object of trade negotiations until recently, as they were not considered as internationally marketable. Owing to the nonexistence of a theoretical framework and to the regulatory character of barriers to the trade in services, it was thought that services fell under the exclusive competence of nations and did not come under Gatt's purview.[6] This view began to change in the seventies when it became obvious that the national regulatory frameworks increased the multinational transaction costs and that the limits on international financial services

[5] Umaña, Germán. El Juego Asimétrico del Comercio, Universidad Nacional, 2004.
[6] Services were not considered marketable until they were included in the multilateral trade system at the Uruguay Round. This is why previous agreements on services such as air or sea transport were bilateral or governed by private law and subject to self-regulation agreements by the respective industries.

and telecommunications transactions and reduced profits. This led the United States and the European countries to propose the inclusion of services in the Uruguay Round of negotiations".[7] This was done, of course, although progress was relatively limited as to liberalization and establishment of norms and standards.

Under bilateral agreements on services, as regards both government procurement and services, the key objective of liberalization was to ensure real, unrestricted access to markets. As a matter of fact, though, many exceptions of a geographical and administrative nature are accepted for the United States but not for their counterparts. With respect to government procurement, the different bilateral agreements allow the United States to keep out of the Treaty the other signatories and their exceptions, while these signatories negotiate jointly with the United States as one state. This makes the Treaty clearly asymmetrical in favor of the most powerful signatory.

Moreover, investment on services is not the object of a separate chapter but comes under the general norms, which precludes the application of public policies related to anything that is contemplated in the multilateral norms.

The multilateral scope is expanded in respect of financial and telecommunication services. Access to public networks is permitted solely on the basis of technical, not economic criteria, as in the case of private networks, which may be free to provide services, thus putting in question the financial viability of public telecommunications enterprises.

The provision of services via Mode 4 is not liberalized, migration policies are not clarified, and little or nothing is negotiated with respect to the recognition of academic degrees or the granting of visas for the rendering of professional services. Nor is a dispute settlement mechanism established for this area.

In sum, in bilateral agreements negotiations turn around the opening up of services as regards investment by telecommunication and financial services multinationals. What is not included is the free movement of natural persons, thereby putting constraints on developing countries. Discordant measures are maintained in the American states, and, as regards public policies pertaining to government procurement, more than 90 percent of the American states do not even participate in the negotiations.

[7] Umaña, 2006. Ibid.

### 3.4 Goods liberalization

In the meantime, with respect to goods, both multilateral and bilateral agreements maintain, with the exception of customs duties, the elimination of price band mechanisms as a protection of the developing countries' farm and livestock sectors, and other minor items, which make no difference to the developed countries.

"Gatt 1947 and the successive negotiation rounds focused on tariffs. Their result was essentially a marked reduction in tariffs and all the member countries defined consolidation levels for nearly the entire tariff universe, setting a maximum they agree not to exceed (standstill). These tariff levels provide the basis for liberalization programs under regional or bilateral agreements. The outcome of the negotiation of these agreements is not to be extended to the other WTO members, as Article XXIV and the eligibility clause for developing countries establish an exception to the most-favored-nation clause.

The Uruguay Round negotiations about the farm and livestock sector managed to convert into tariff most nontariff barriers to imports, although in some cases excessively high levels were set, which prevented maintenance of the historical trade flows. To maintain them, contingent levels—lower or zero tariff—were set.

Nevertheless, international trade in farm products remains distorted by export subsidies, domestic support, and other measures of equal effect, which total approximately one billion dollars a day.

Although the Uruguay Round allowed reductions on these items, they were insufficient and thus it was agreed to continue negotiations on this sector, but these negotiations move at a slow pace. In Cancun, a serious crisis arose, which at least put into question the successful conclusion of the Doha Round and the advances in the multilateral system.

As regards the farm sector, the Agreement on Sanitary and Phytosanitary Measures-SPS is in force. In many cases it allows a scientific, consistent treatment of plant health, but in other cases, owing to its vagueness, it may give rise to technical obstacles and nontariff barriers that have no clear justification. Little progress has been made with respect to the antidumping statute and the multilateral competition norms capable of checking abuse of market dominating positions.

In sum, the WTO has fixed the maximum tariff levels the countries may apply and an exception to the principles of the most-favored-nation clause for integration agreements, which allows goods liberalization; converted into tariffs the quantitative barriers to the world trade in farm products, reduced subsidies, and domestic support, although these tariffs are still quite high; and has made little progress in respect of disciplines. It has also established a mechanism for settlement of disputes arising from agreements already signed."[8] Under bilateral agreements all this is covered, but no protection mechanism if provided for developing countries.

The trap of bilateralism is obvious—progress is made in all that is of interest to developed countries while the opening up of markets for goods and services of interest to developing countries remains at a standstill. Asymmetry becomes more marked and with respect to intellectual property we keep moving farther apart. Bilateral treaties are thus investment, not exactly free trade treaties. This is where the true fallacy lies.

### 3.5 Colombia: a bad example for other developing countries

Colombia is a WTO member. It observes the provisions of the Uruguay Round with respect to industrial goods and farm products, services, intellectual property, investment, dispute settlement, etc. On the multilateral front, it participates in the Ftaa negotiations, currently in recess; is an active member of the Andean Community — CAN and of the Latin American Integration Association — Aladi, and in this context it has engaged in different negotiations, such as those between CAN and Mercosur and with Chile. It is also a member of the Group of Three (G-3), has agreements of a partial scope with countries of Central America and Caricom, and enjoys preferences (improperly called unilateral), pursuant to the principle of Shared Responsibility in combating drugs, from the United States (Atpdea) and a special SGP from the European Union, to replace the drug SGP, which was questioned and modified by WTO mandate as a result of India's petition, as mentioned earlier.

Colombia is currently negotiating, jointly with Peru and Ecuador, a FTT with the United States, expected to be signed by the respective Executive Branches

[8] Umaña, 2006. Ibid.

in the last quarter of 2005, so that ratification procedures can be started by the Legislative Branch of each country, and so that, in Colombia, its constitutionality may be approved. In addition, in the context of CAN, studies and analyses are being carried out with the European Union, with a view to start negotiations for an Agreement of Association with the EU and a Free Trade Zone in 2006. This strategy forms part of what is being called open integration.

Major progress has been made toward the definitive consolidation of an Andean Community customs union, with respect not only to the establishment of a common external tariff but also to ensuring compatibility with international norms, in view of the recognition of the different development levels among the signatories of the Agreement. Four members have agreed not to modify their tariffs unilaterally; the two most developed countries of the region have practically identical tariffs; and trade within the community is substantial, particularly trade in manufactures and in products with aggregated value.

There has also been substantial progress in terms of harmonization of customs and trade legislation, as well as of liberalization of trade in services and goods. Moreover, common policies on intellectual property and investment have been formulated and three countries (Colombia, Ecuador, and Venezuela) have a common policy with respect to price bands stabilization mechanisms.

In addition, there has been real progress also in the liberalization of the movement of natural persons and in adding a social dimension to integration. If to this we add strong institutional development, exemplified by the existence of an interstate organization (Commission, Andean Council of Foreign Ministers, Secretariat, Andean Court of Justice, Andean Parliament, Andean Development Corporation, Education and Health Pacts, Labor and Entrepreneurial Council, etc.), there would be no doubt about the vigor of an integration process that, with its avatars, seems to be consistent with a relatively simple deepening in the long run. However, that which might seem obvious should be seen from the perspective of the tenets of the trade policy of the members of the integration agreement, as there are internal and external factors that may affect its consolidation.

In the first place, the CAN–Mercosur negotiations are essentially for a trade goods liberalization agreement. Although tariff reduction varies from country to country, it is assumed that there will be convergence at the end of the process. It should also be said that what has been decided does not affect the discipline harmonization and the institutional strengthening processes. Moreover, South American integration increasingly promotes political proposals that reinforce its identity as a process, such as the establishment of the South American Community of Nations.

A second type of agreement is characterized particularly by the negotiations under way with the United States, in which the main variables to consider have to do with the effects the free trade zone might have on the Andean Community and with the preeminence or lack thereof of the negotiation results over norms and institutions as well as over the degree of liberalization achieved.

In essence, trade policy analysis should take into consideration the fact that this will be a new generation agreement that will include factors liberalization (goods, services, investments, government procurement), the establishment of disciplines and of limits to public and integration policies, and general and particular mechanisms for settlement of disputes pertaining to investment in goods, financial services, and telecommunications, as well as intellectual property, in cases concerning which there are no WTO norms. Still to be defined is whether the FTA will go beyond the TRIP signed at the WTO, in respect of both patents and authors' rights and of compliance and relation with the progress made in the Wipo. These aspects ought to be considered in relation to CAN decisions regarding this matter.

With respect to the Customs Union and to services, the FTAs with the United States differ from agreements with Mercosur and with other Latin American countries not only in coverage but also in the fact that, in principle, one of the members (Venezuela) is not interested in signing a bilateral agreement with the United States, and that Bolivia is an observer. Under these circumstances, if a bilateral legal framework were established, rather than a multilateral, as proposed by the United States, the pace of negotiations might be different and the simultaneous signing of FTAs with Colombia, Ecuador, and Peru might be possible.

Accordingly, there would be no clearly defined deadline for convergence in trade opening or for disciplines harmonization and dispute settlement, which might eventually hinder a work plan designed for improving the customs union and the common market, particularly in respect of services and government procurement. These agreements could weaken the political decision about whether there is a need to make progress toward a common market and reinforce the intention to maintain only a free trade zone endowed with correction mechanisms to address market imperfections stemming from custom duties differences, customs norms, and a lesser degree of common policies harmonization.

Furthermore, CAN is getting ready to begin negotiations of an association agreement with the European Union. So far, the European Union's condition for starting negotiations has been the strengthening of a customs union and, in general, of economic integration aimed at a common market. Apparently, the outcome of the FTA with the United States will be known in the last quarter of 2005. This would permit the identification of the limits or advantages of moving further toward a common market. On the other hand, the eventual outcome of the consultation rounds for starting negotiations with the European Union might make necessary the speeding-up of the timetable and the commitment to deepen integration as condition for the joint negotiation of the five countries involved.

In brief, it can thus be said that the outcome of negotiations between three of the five Andean countries with the United States will amount to a centrifugal force whose magnitude should be evaluated, so that the necessary corrections may be made, while negotiations with the European Union could be a balancing centripetal force for the political ratification of the integration objectives, which up to now have been maintained, in respect of trade, by the Andean President's Council, and which would be reinforced by the establishment of a South American zone this year.

As this overview has shown, in the immediate future and in accordance with the outcome of the negotiations under way, Colombia must undertake a thorough analysis of its participation in the various integration scenarios of which it forms part and of the achievements under the different agreements, so as to redefine its external trade policy. It seems complicated to pretend to deepen trade opening in the form agreed with the United States and at the same time to achieve the objective of a common market as contemplated by CAN.

A FTA would imply giving up our sovereignty, but this would not be the result of self-determination and of citizens' participation. It would lead us into the bilateral trap, which would distance us from globalization, Latin America, and the common positions assumed by developing countries at multilateral forums. It would mean precisely the opposite of what is claimed: it would condemn us to isolationism, a situation in which our only partner would see us as a colony rather than as a sovereign nation. It would be an investment protection treaty, not a free trade treaty. It is precisely here that the fallacy lies. Would the FTA's approval be transparent, legitimate, legal or constitutional? DEP

Version: João Coelho.

# The Amazonian Cooperation Treaty Organisation (Acto): a constant challenge

*Rosalía Arteaga Serrano* *

The pressing need to protect the Amazon and exercise sovereignty but also the ineluctable fight to eradicate poverty, to improve the standard of living and what could, from the outset, be viewed as a kind of call to achieve sustainable development, those were the considerations on the agenda of the foreign ministers from the eight countries that have sovereignty over the Amazon Basin back in the year 1978. Their attitude could be described as visionary for the time. It expressed the concern of the governments of Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela for what that portion of their respective territories represented not merely in percentage terms but rather what it might mean for many co-nationals in those countries.

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The size of these countries' Amazon regions as a percentage of their entire territories, based on information they themselves have provided, is as follows:[1]

Table 1. Continental Amazon

| Countries of the Amazon River Basin | | | |
|---|---|---|---|
| Country | Amazon territory (km$^2$) | As % of national territory | As % of the Amazon Basin |
| Bolivia | 824,000 | 75.00 | 11,20 |
| Brazil | 4,982,000 | 58.50 | 67.79 |
| Colombia | 406,000 | 36.00 | 5.52 |
| Ecuador | 123,00 | 45.00 | 1.67 |
| Guyana | 5,870 | 2.73 | 0.08 |
| Peru | 956,751 | 74.44 | 13.02 |
| Venezuela | 53,000 | 5.78 | 0.72 |
| Countries in the Amazon Domain* | | | |
| Suriname | 142,800 | 100.00 | – |
| Total (Amazon) | 7,493,421 | | |

* A tract of 91,000 km2 in French Guiana is located in the Amazon Basin.

After 25 years in operation, during which time the Treaty was administered by rotating *Pro Tempore* Secretariats attached to the countries' respective Foreign Ministries, the Foreign Ministers and Governments of the Treaty's signatory members decided to establish the Amazonian Cooperation Treaty Organisation (Acto). They accepted the Brazilian Government's kind offer to make Brasilia the headquarters for this new organization. By its very conception and considering the initial progress it has made, Acto is destined to play a major role in the region, in the South American continent and, indeed, in the global arena. This is because the sheer scope of the challenges posed and the issues at stake have a direct bearing even on the very survival of the human species on the planet.

[1] Source: "Amazonía sin mitos" [The Amazon without myths], ACT.

Dealing with the Amazon implies examining its diverse potential, including its vast wealth, not only the riches contained in its soil, but also the quality of its air, the verdure of the forest that seems virtually unending but that we know to be only too fragile when put to bad use. Much is made of the number of species in the Amazon, of its biological diversity but little attention is given to demographic and cultural aspects, practically no mention being made of the people who inhabit the region. We are referring here not only to the indigenous populations but also to those who arrived at a later stage but who feel themselves to be just as much a part of the Amazon, to be true Amazonians.

On a number of occasions we have spoken of the Amazonian Cooperation Treaty Organisation as an "old novelty" for, although its roots reach back over a period of twenty-five years in which the Treaty has been in force, it is certainly new on the scene if we narrow our focus to the two and a half years that have elapsed since the Organisation's Permanent Secretariat was installed.

Acto is the only regional Amazonian organization to which all eight governments of the countries comprising the region belong. As a result, it plays a vital role in promoting regional integration and thus deserves the unflagging support of its member states. Its mandate covers a broad range of interests, all inherent in its Amazonian nature, all related to its concern for the elements comprising the Amazon, to its status as a generative matrix.

What we do in the Amazon region affects humankind as a whole. It is no exaggeration to speak of all humankind for the reserves of fresh water available in the Amazon Basin, the biodiversity it nurtures, the extraordinary potential it proffers, the cultural diversity it displays, the opportunity it affords for communication reaching beyond the countries' particular interests, the fight against poverty, the success of policies on health, education, gender, culture, sanitation, all condensed in the quest for and consolidation of sustainable and sustained development, all this leads one to realise that a great deal of mankind's future is in our hands.

When I write or talk about the organisation I have been entrusted with running, I strive passionately to place it in a position of leadership, a role it is beginning to assume. I am convinced that through the political will of the presidents of the eight member republics the Amazon region can become the best and finest locus for integrating our countries, for integrating America. Such integration is fired by the ideals and visionary dreams of South American unity but is equally based on the endeavour to achieve more equitable living conditions. That explains why we have striven to contribute to the building of a South American Community of Nations. Such a Commonwealth cannot be forged if 40% of the continent's territory – the region over which Acto has a mandate – is ignored. Perhaps the fact that the Amazon has not previously been considered a part of such initiatives may explain why sub-regional, regional and continental integration processes have so far failed to deliver. This cannot, of course, be seen as the sole cause but there is a clear connection.

From the point of view of Acto's Permanent Secretariat, the time has come to cease tackling challenges separately and, instead, to promote joint negotiations on the Amazon, to work together as a team of Amazonian countries. By doing so, we can enhance our strong points and attain our common goals. We have already begun to do this by adopting joint stands on forests and contamination by mercury, and, with any luck, we can now do likewise on such relevant issues as water, biodiversity, and intellectual and industrial property rights.

For this reason, we are interested in reviving the Amazonian Parliament to enable Acto member states to bring their national legislation into alignment in a number of fields associated with the main challenges facing sustainable development in the Amazon. These include the issues mentioned above and others relating to protection of the traditional peoples of the region and their cultures, scientific and technological knowledge and innovative know-how. To the present day they remain unknown to us, and yet they are crucial to the unquestionable imperative of protecting the Amazon as a strategic source of life.

When I took office as the Secretary-General of the Amazonian Cooperation Treaty Organisation in May 2004, I proposed to the governments of the eight member states a common agenda for the Amazon region, featuring important steps forward through the establishment of a strategic eight-year plan (2004-2012) based on biennial action plans. The governments of the member states approved this plan in September 2004 at the VIII Meeting of Foreign Ministers held in Manaus. We have already begun to implement it imbued with a strong sense of courage, commitment and enthusiasm.

To this end, we have taken due stock of the mission to forge technical and financial mechanisms, in addition to adopting common, complementary policies, for effective achievement of regional integration and sustainable development. We are endeavouring to engage member countries as well as regional and local players in preparing and implementing the necessary plans, programmes and projects. This will boost our capacity for joint global action on matters of interest to the region.

Acto's potential contribution and the value it can add to the work separately undertaken by each country resides in its capacity to view the basin as a whole, as an exceptional single biome with a high degree of interdependence. This is all the more evident when the Amazon is viewed as a hydrographic system fed largely by water running off the Andean heights, where the highest volcanoes in the world are located, and washing down into the vast plains of the Amazon Basin itself, which owes a great deal of its biodiversity to the loam the water carries with it. The overview of a regional organisation like Acto is indispensable when working to protect and put to good use the resources of the world's biggest river basin. It covers an area of 7,500,000 square kilometres containing 20% of the planet's fresh water and boasting truly extraordinary biodiversity. Purely for the sake of illustration, scientists reckon that a single average hectare of the Amazon territory in any of our countries would probably display greater biodiversity than the entire continent of Europe, with all the implications that entails. In terms of the potential for health, for instance, the Amazon has reserves that may well yield medications for treating diseases that have yet to appear on the face of the Earth. Exaggerated as that claim may seem, it is placed in proper perspective when one recollects scourges such as mad cow disease, bird flu and even Aids, diseases that have apparently not been around on the planet for very long. Moreover, these precious reserves can be combined with the traditional knowledge of communities that have for ages made their lives in the Amazon.

The delta of the Amazon discharges more water into the ocean than the other nine largest rivers in the world put together.

If we stop to think about the growing importance of this vital liquid given its present scarcity in some regions of the world and the acute demand for it in the not-so-distant future, as much on account of demographic pressure as of general misuse of natural resources, we will once more gain a clearer picture of the Amazon Basin's true dimensions.

The Amazonian Cooperation Treaty Organisation is called upon to intervene (as it already has done) in matters relating to political dialogue, regional strategies and programmes, and a variety of supranational initiatives and projects, within the framework of a strategic approach.

The Strategic Plan for 2004-2012, mentioned above, has listed four programmatic fields and a number of transversal elements. The list is not exhaustive and can be expanded depending on demands made by the member countries, presented either through official channels or by citizens represented by so-called civil society through consultation mechanisms now being developed.

The four programmatic fields are as follows:

1) Conservation and Sustainable Use of Natural Resources, a specific concomitant mandate owing to the extremely rich, fragile area demanding conservation;

2) Management of Knowledge and Technological Exchange designed to promote south-south cooperation without, of course, disparaging advances originating in other regions that may contribute to development. Based on the principles of sustainability, the most appropriate way to save the Amazon, generally speaking, is to employ science and the hitherto unimaginable advances it now affords that are already transforming the world, particularly advances in fields such as biotechnology and communications. In both cases, the Amazon stands to gain from adequate use of these breakthroughs;

3) Integration and regional competitiveness, since the Amazon territories in all our countries have lagged behind. They were previously held to be empty areas suitable for settlement. Given that the Amazon region represents 40% of the entire South American continent, no regional integration initiative can hope to achieve success if it fails to incorporate the vast Amazon region. The evident disparities among the countries comprising the region are offset by similarities stemming from geographic features: we share a river basin, a biome, indigenous peoples, and cultures capable of forging an Amazonian identity, however diverse they may be, that could serve as the cornerstone for the edifice of integration. Eventually, one may even envisage the prospect of the region competing together for global markets. In the case of the Amazon, that means insisting on payment of fair prices, considering the difficulties for production, the logistical obstacles, etc. that inevitably raise the cost of production;

4) Strengthening of the institutional framework. In view of the Organisation's relative youth (less than three years on from its foundation), this is an entirely plausible goal to pursue.

In addition to the programmatic fields established in the Strategic Plan, a number of transversal elements have been listed, but that in no way rules out the inclusion of other priority issues.

The transversal elements are as follows:

1) Water: considering the Amazon possesses the world's largest fresh water reserves, that water is often considered an inexhaustible resource but may indeed run out and is already running short in certain areas, with a consequent sharp decline in living conditions, the Amazon region must take all due precautions to treat this vital resource in a responsible manner;

2) Forests, soils and natural areas protected as a mechanism to help preserve sustainability. On satellite images of the Earth, the Amazon appears as a great green swathe. It is thus our bounden duty to preserve it as the world's biggest tropical rain forest;

3) Biodiversity, biotechnology and biocommerce, each with its specific traits, subject to the concepts expressed above concerning the region's extraordinary wealth of biological diversity. Precisely to preserve it, alternative mechanisms, including biotechnology and biocommerce, must be employed to make adequate use of its resources. We must endeavour to seek possible means of generating employment for the local population and appropriate ways of exploring the forest's resources (e.g. essential oils, fruit pulps, handcraft using wood chips, seeds etc.). A variety of initiatives already exist. One such initiative is the Amazonian Exchange initially established in Belém do Pará (Brazil) and already extended to other countries in the region. Acto has begun to work on this front with its customary sense of responsibility thanks to support from Unctad, the United Nations Foundation, and the Dutch Government.

4) Territorial ordinance, human settlements and indigenous affairs. By naming these issues, Acto seeks to acknowledge their importance as mechanisms for securing fair treatment concerning ownership of land and so prevent the abuses that have traditionally prevailed in relations between the rich and those who possess nothing. Indigenous communities themselves should be responsible for indigenous affairs. Nonetheless, agreements of the kind Acto has signed with organisations such as Coica[2] and the contact it has established with other sectors

[2] Coica – Coordinating Body for the Indigenous Organisations of the Amazon Basin.

may help them achieve their goals. Disparities in this sphere are equally apparent. Empowering Acto to work with these different sectors may prove a valid alternative for the signatory states of the Treaty and members of the Organisation;

5) Social infrastructure, relating to health and education. As is always the case with regions that have not merited due attention, the most glaring figures for inequality and poverty are those relating to health and education, and the Amazon region is no exception to the rule. As hinted previously, the Amazon provinces or states record the lowest indices for health and education. In both Brazil and Bolivia, sizeable urban areas have already sprung up in the region and are increasingly attracting migrants for a variety of (often misguided) reasons. These towns are generally portrayed as promising places, which encourages different social sectors to move there. Acto has already signed an agreement on health with the Pan American Health Organisation, particularly to combat malaria and establish epidemiological control at frontiers, which should soon become operational. It has also made contact with Andean Community's Hipólito Unanue covenant and the Fiocruz foundation in Brazil;

6) Transports, energy and communications infrastructure, requiring association with the Iirsa infrastructure initiative. The aim is to seek alternatives for keeping negative impacts to a minimum in the construction of infrastructure while also deriving maximum benefit for the local population and vis-à-vis environmental policies. In this respect, an attempt is being made to revive an initiative for navigation along the Amazon River system.

Over the past 16 months, the Amazonian Cooperation Treaty Organisation has set about establishing a series of strategic agreements (see Table 2 below) that will enable it to fulfil the objectives and goals it has set itself. They will also allow Acto to establish itself in the Latin American and global arena as a mechanism for integration capable of promoting sustainable development in the region, becoming a standard setter thanks to its philosophy and accomplishments.

Table 2. Agreements drawn up between the Amazonian Cooperation Treaty Organisation's Permanent Secretariat and other organisations (2004-2005).

| | |
|---|---|
| Acto – FAO Agreement, Integral forestry management, sustainability criteria and indicators for the Amazon Forest, "Tarapoto Process". | Brasilia<br>25th May 2004 |
| Acto – Unctad Memorandum of Understanding for boosting sustainable trade and investment in biodiversity products and services in the Amazon region. | São Paulo<br>15th June 2004 |
| Letter of Understanding between Acto and the Intergovernmental Coordination Committee of the Plata River Basin Countries (CIC) on exchange of information and cooperation on activities of joint interest. | Brasilia<br>30th August 2004 |
| Acto – Unamaz Cooperation Agreement for strengthening the network of Amazonian Universities. | Santa Cruz de la Sierra<br>21st September 2004 |
| Acto – CAN[3] Memorandum of Understanding. | Lima<br>29th September 2004 |
| Acto – Ambi[4] Letter of Understanding for collaboration in organising the Andes-Amazon Expedition. | Brasilia<br>15th October 2004 |
| Acto – Coica[5] Memorandum of Understanding. | Quito<br>25th October 2004 |
| Acto – CAF[6] Cooperation Agreement for establishing a Solidary Development Fund. | Caracas<br>17th January 2005 |
| Acto – OAS Cooperation Agreement. | Washington<br>27th January 2005 |
| Acto – Paho/WHO Landmark Agreement on endemic diseases and epidemiological control. | Washington<br>3rd February 2005 |
| Acto – OAS Cooperation Agreement for provision of funds from the Global Environment Facility (GEF) allocated to preparation and implementation of the project on "Integrated Sustainable Management of Cross-Border Water Resources in the Amazon River Basin". | Bahia<br>25th June 2005 |
| Acto – IDB Agreement for promoting conservation and sustainable use of Amazonian biodiversity – Regional plan of action for biodiversity. | Washington<br>25th July 2005 |
| International Cooperation: BMZ/GTZ[7], Usaid, Cyted[8]. | |

3 CAN – Andean Community.
4 Ambi – Socio-Environmental & Scientific Expeditions Organisation.
5 Coica – Coordinating Body for the Indigenous Organisations of the Amazon Basin.
6 CAF – Andean Development Corporation.
7 BMZ – German Ministry for Economic Cooperation and Development; GTZ - Deutsche Gesellschaft für Technische Zusammenarbeit (German technical cooperation agency).
8 Ciencia y Tecnología para el Desarrollo (Science & Technology for Development).

## Fields of Action 2005-2006

In the previous section we mentioned that the Organisation's working mechanism, which dovetails with the 2004-2012 Strategic Plan approved in Manaus, consists in drafting and overseeing biennial plans of action. Priority has been ascribed to the following fields of action in the 2005-2006 plan currently being implemented:

### a) Policies on conservation and sustainable development

These are policies with a dual priority of conservation combined with adequate exploration of the forest's resources, exactly as envisaged in the 1978 Treaty. In this sphere, Acto's Permanent Secretariat is seeking to enhance regional liaison and political dialogue through participation in and leadership of meetings held under the Organisation's aegis as well as meetings of Foreign Ministers or other officials to examine specific issues (e.g. those already held on Intellectual and Industrial Property, Science & Technology, and others currently being prepared) as well as by taking part in meetings convened by the South American Community of Nations, the Andean Community, the United Nations, and so forth.

Another feature demanding immediate, sustained attention is the "Amazonisation" of positions adopted in international forums. This has already been the case at the world meeting on forests held in New York and a number of initiatives concerning intellectual property and mercury contamination. Work has also been undertaken to establish specific consensual instruments among the countries of the region for validation of sustainability indicator criteria for Amazon forests, a mechanism known as the Tarapoto Process (see Table 2 above). In the same context, Acto is now seeking to forge liaison and consultation mechanisms with civil society in the Amazon. This is no easy task but it must be addressed for, although Acto represents the member state governments, it works directly with the region's inhabitants.

### b) Strengthening of Acto's political and institutional framework

This requires sustained work on several different levels. To this end, the member states' national commissions need strengthening, a task each country will have to tackle internally but which we, as the Permanent Secretariat, can help address.

At this point, we should stress the present importance of institutions created almost in parallel or in close association with the Treaty itself on which Acto will have to rely to accomplish its goals. We refer initially to the Amazonian Parliament. A political decision by the member states is required to institutionalise and revive the Parliament. This is of crucial importance bearing in mind the basic tenet that any development process depends on the active contribution of national decision-making bodies. The legislative branch represents society's aspirations and can thus help reflect on and find solutions for sustainable development in the region. It can likewise assist in consolidating regional integration and development policies.

Hence, the Amazonian Parliament, to which the region's national parliaments will be tributary, is a key mechanism for bringing the member states' laws into alignment, thus facilitating economic and cultural exchange as well as cooperation for sustainable development. Liaison among the parliaments in the region is a major step forward in promoting mutual knowledge of our specificities and achieving effective integration among our peoples.

Another institution that needs strengthening and was created practically in parallel with Acto is Unamaz, the Network of Amazonian Universities, whose brief is to coordinate the work of study centres in the region.

Finally, there is Coica, a body congregating the indigenous communities in the Amazon, another institution established in the wake of ACT.

Also in the context of strengthening Acto's political and institutional framework, meetings of the Organisation's decision-making bodies must be convened and held, beginning with the Coordination Committee (Ccoor) comprised by the member states' ambassadors accredited in Brasilia, but also including the Amazonian Cooperation Council (CCA), Foreign Ministers' meetings and Presidential Summits.

Another aspiration on which the Permanent Secretariat, Acto's executive body, is currently working is the establishment and consolidation of a local, municipal and sub-regional political base.

### c) Influence in drafting and aligning policies

This implies identifying priorities for alignment and cohesive regional action. It is based on presidential summits and ministerial meetings like that held in Manaus at which a resolution was passed that work was to be concentrated in the following areas: Defence and Integral Security of the Amazon, Social Development, Infrastructure and Physical Integration, Science and Technology, Biodiversity and Intellectual Property.

For this purpose, a number of instruments are being developed to assist in decision-making: production of maps with support from the German cooperation agency GTZ, Inpe[9] and Sivam[10]; and the drafting of proposals for reviewing different definitions of the Amazon region, support being provided by the European Community through the Joint Research Centre.

We are taking part in strategic events together with CAN, Cyted, the Manaus Free Trade Zone, and we hope to do the same on the basis of initial contacts with Mercosur (through the Intergovernmental Coordination Committee of the Plata River Basin Countries-CIC), Sipam[11], Iirsa[12], Caricom[13], etc.

Enhanced liaison and joint projects in the context of the Amazon Basin will lead to the adoption of standard criteria and greater exchange of information. This is already the case on issues such as mercury contamination, forestry affairs, intellectual and industrial property, among others.

### d) Management of knowledge and local political liaison for sustainable development

We have been liaising primarily with Unamaz, another institution created at roughly the same time as the ACT. Unamaz is a network of Amazonian universities and has played a key role in developing scientific knowledge, technological know-how and innovation for the region. Nonetheless, it has not yet attained its full potential nor achieved the results expected. It should be stressed that besides the universities, there are several major research centres in the region enjoying international prestige. These include the Emílio Goeldi Museum (Belém, Brazil), the Peruvian Amazon National Research Institute (Iiap), the Amazon

[9] Brazil's National Space Research Institute.
[10] Brazilian Amazon Surveillance System.
[11] Amazon Protection System attached to the Brazilian President's Office.
[12] IIRSA – Iniciativa para la Integración de la Infraestructura Regional Suramericana [South American regional infrastructure integration initiative].
[13] Caribbean Community.

Biotechnology Centre – CBA (Manaus, Brazil), Sinchi[14], and the Humboldt Institute[15].

Acto has begun to liaise with Cyted[16], national science and technology councils and similar establishments in each of the member countries while also investing in joint ventures like the so-called Amazon Initiative, to which it has been party since its foundation.

Acto has also been collaborating with multi-institutional networks operating at regional level, including the Amazon Initiative mentioned in the previous paragraph and the MAP (Madre de Dios, Acre, Pando) project for engaging civil society, among others.

All these initiatives afford enhanced production and exchange of information as part of a policy designed to highlight and promote good governance.

### e) Funding of projects and use of resources

The Organisation operates with a small core group of technicians, experts and administrative staff funded by the quotas each member state contributes for that purpose. It also manages other funds obtained from international cooperation, international organisations, cooperating countries, private enterprise, etc. Acto now aims to set up a solidary development fund for the Amazon with the support of member country governments and cooperating institutions. To this end, it has initiated consultations with the Andean Development Corporation (CAF).

Details of projects currently being administered by Acto's Permanent Secretariat and those at the preparation stage are provided, respectively, in Tables 3 and 4 below.

[14] The Colombian Amazonian Scientific Research Institute.

[15] Instituto de Investigación de Recursos Biológicos Alexander von Humboldt, Bogotá (Colombia).

[16] Ciencia y Tecnología para el Desarrollo (Science & Technology for Development).

## Table 3 – Acto/PS Projects in Progress

| Projects in Progress |
|---|
| 1. Regional Biodiversity Management Project – IDB. |
| 2. Integrated Sustainable Management of Water Resources – GEF/Unep[17] – OAS. |
| 3. Project on Economic Use of Biodiversity – Unctad/Dutch Govt./GTZ/UNF[18]. |
| 4. Draft Project for Conservation of the Tropical Amazon Forest II – GTZ/BMZ. |
| 5. "Acto Prize" and "Discovering the Amazon: Acto and the Orellana Youth Paths" – Governments/Private Sector. |
| 6. Validation of Sustainability Indicators for the Amazon Forest – FAO. |
| 7. Proposal for participation of civil society in Acto: Uicn/FLA[19] – IDB. |
| 8. Prevention and control of mercury contamination – US Government. |
| 9. Proposal for demarcating the Amazon region – IES-EU[20]. |

## Table 4. Acto/PS Projects at the Preparation Stage

| Projects at the Preparation Stage |
|---|
| Prevention and control of mercury contamination – US Government – EPA[21] – MMA[22]/Brazil. |
| Technical, financial and political feasibility study for establishment of a Solidary Development Fund – CAF[23]. |
| Draft health project – Paho. |
| Amazon Project – Moore Foundation. |
| Regional Project for Itto[24] – Governance, monitoring of forest cover. |
| Protected Areas Programme – WWF-Cirad[25]. |
| Andes Amazon Programme – GTZ/Icraf[26]. |
| Cross-Border Parks – KfW[27]. |
| Economic Aspects for Sustainable Development and Indigenous Lands Management – Dutch Government. |

[17] GEF – Global Environment Facility; UNEP – United Nations Environment Programme.
[18] UNF – United Nations Foundation.
[19] Uicn – World Conservation Union; FLA – Fair Labour Association.
[20] IES – Institute for Environmental Sustainability.
[21] EPA – US Environmental Protection Agency.
[22] MMA – Brazilian Environment Ministry.
[23] CAF – Andean Development Corporation.
[24] Itto – International Tropical Timber Organisation.
[25] Cirad – Centre de Coopération Internationale en Recherche Agronomique pour le Développement.
[26] Icraf – World Agroforestry Centre (originally International Council for Research in Agroforestry).
[27] KfW Bankengruppe (KfW banking group).

Each of these projects merits at least a paragraph to explain what they entail. This is not possible here in this prestigious periodical so I merely wish to stress that no specific mention is made in the Acto Strategic Plan of certain issues on which we are working, such as gender and cultural issues. These are being addressed, for example, at awareness-raising seminars (e.g. the Gender and Amazon Seminar due to be held in the Peruvian Amazon) and through cultural and scientific projects (e.g. the "Discovering the Amazon: Acto and the Orellana Youth Paths" expedition, which prepares discovery trips to the Amazon with annual routes for young people nominated by the member states; and the Acto prizes, designed to publicise and encourage relevant initiatives in the region.

The Amazon region possesses tremendous forestry potential, is rich in biodiversity, and has been settled over the years in cycles of exploitation of its natural resources marked by scarce little concern for conservation. The region has to cope with acknowledged logistical difficulties, high production overheads if we are to subscribe to traditional market rules and a great dispersal of species due to exceptional biodiversity.

Other features that deserve consideration are the low technological capacity, poor availability of and access to information (despite the proliferation of studies carried out especially by experts and scientists from outside the region) and the remarkable social and ethnic diversity.

We should also pay special attention to certain micro-regional specificities including poor political and economic stability, flimsy institutional capacity, low levels of participation and decentralisation, as well as glaring disparities.

The Amazon continues to be seen as a land of opportunities, the challenges arising from the facts mentioned above. We must lay to rest the myth that this is a rich but empty region. Rather, we should endeavour to come to terms with its complexity and peculiarities and so ensure its assets are transformed into opportunities for the local population, while also acknowledging the regulatory function of the State regarding access to natural resources and management of the territory.

Conservation of natural resources is imperative for present and future generations. Likewise, we must strive not to repeat the mistakes of the past and instead to make the most of successful initiatives.

We must seek to incorporate sustainable planning into our praxis, engaging local, municipal, state and national players so as to broaden the social base, thus fulfilling the Amazonian Cooperation Treaty.

As should by now be apparent, the challenge we face is enormous. Acto has such a broad outlook that it could even be viewed as a great umbrella covering a wealth concerns, suggestions and proposals. At the same time, it should serve as an antenna to attract international cooperation and pertinent projects. Beyond that, the Organisation aspires to become a beacon for rallying action in the region. DEP

Version: Mark Ridd.

# Guyana – linking Brazil with the Caribbean: potential meets opportunity

*Peter R. Ramsaroop, MBA* *
*Eric M. Phillips, MBA* **

In view of the decision by the European Union (EU) to cut the preferential price it pays for sugar imported from African, Caribbean and Pacific (ACP) countries under the 1975 ACP-EU Sugar Protocol, Guyana is faced with a serious threat to its already anaemic economy and its social stability.

Guyana and other Caribbean sugar producing nations, like Jamaica and Belize are still hoping for a change in EU policy. However, the recent ruling by the World Trade Organization (WTO) in favour of Australia, Brazil and Thailand

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– stating that the EU's preferential trade arrangements with ACP countries violated WTO export subsidy reduction schemes – will result in significant losses for ACP countries. This is all the more so since the EU's appeal was turned down in April 2005.

Sugar is the backbone of Guyana's economy. Annual revenue for Guyana from sugar exports was US$121 millions in 2004. The sugar industry employs 27,000 workers besides indirectly supporting another 97,000 Guyanese. The proposed cuts could cost Guyana at least US$ 40 millions in export revenues – more than four times the estimated US$ 8 millions from the debt relief initiative for poor countries promised at the recent G8 Summit (Financial Times, June 24, 2005). The proposed 40-million-euro aid package from the EU ignores the fact that sugar accounts for a major portion of the GDP of many ACP countries. More than US$ 500 millions in aid would be more appropriate.

Given the imminent collapse of its historic sugar market, the potential job loss for literally thousands of sugar workers, and a looming oil crisis that puts the country at extreme economic risk, Guyana needs to implement its National Development Strategy if it is to achieve sustainable economic growth and meet its Millennium Development Goals by 2015.

Linking Guyana to Brazil by building the long-awaited paved highway could initiate the first step of several dramatic developments including a deep-water harbour, a Free Enterprise Zone and other infrastructure elements required to transform Guyana's economic landscape.

Global consulting firm AT Kearney recently noted that South American economies were lagging behind more interesting emerging markets such as those in Central Europe and Asia. In fact, our neighbour Brazil once rated the ninth most attractive emerging economy for investment has slid to 17th place, its lowest ranking in ten years in the highly-touted Foreign Direct Investment Confidence index. Additionally, a "crowding out" effect caused by the expansion of the Chinese economy may restrict FDI in other emerging markets, especially in South America.

Where, then, does Guyana stand in the hunt for global capital and the jobs that may ensue, and how can Guyana become competitive in an increasingly fierce battle for foreign investment? With all Guyana's resources, what are the necessary prerequisites to eradicate poverty in the face of so much "potential"?

Traditionally, foreign direct investment has been based on a large number of purely economic factors such as the availability of raw materials, low labour costs and the capacity of physical infrastructure to get goods to market. Other factors such as market size, local growth and regional integration play a part in determining the appeal for foreign investors. Efficiency indicators such as the productivity of the workforce, availability of sufficient skilled labour, the services sector's capacity, sophistication of local financial markets, and the market-friendliness of trade policy also need to be factored in (FDI in Developing Countries, Nunnekamp, 2002).

From this discussion, it is clear that Guyana has a mix of opportunities and obstacles. The availability of raw materials, labour and the possibility of regional integration are clear opportunities. Sadly, political stability and policies that create a climate conducive to investment are currently less clearly positive.

The Guyanese private sector must continue to work with the Government to create an environment that fosters foreign direct investment and regional partnerships.

## Practical solutions

Brazil is the number one global producer of five key products, including coffee and orange juice. It is also the number two producer of soybeans and kidney beans, the third largest producer of maize, and the number four producer of cocoa. It is the second largest producer of beef with the world's second largest cattle herd. Brazil accounts for more than 32 percent of the global production of oranges besides being the top exporter of concentrated juice, of which it produces 90 percent.

Paving the road from Guyana to Brazil would present both countries with an amazing array of opportunities to generate significant economic activity and boost domestic wealth.

## Sharing wealth

Consider this excerpt from a recent New York Times article by columnist Larry Rohter entitled "South America Seeks to Fill the World's Table":

> Almost overnight, South America has driven a historic global shift in food production that is turning the largely untapped frontier heartland of the continent into the world's new breadbasket. One of the last places on earth where large tracts are still available for agriculture, the region, led by Brazil,

> has had an explosion of farm exports over the past decade. The growth has been fuelled by a combination of market-friendly economic policies and advances in agronomy that have brought formerly unusable tropical lands into production and increased productivity levels beyond those in the United States and Europe, challenging their traditional dominance of the global farm trade. Some time over the next decade or so, Brazil, which former Secretary of State Colin L. Powell described as "an agricultural superpower" during a visit in October, hopes to pass the United States as the world's largest agricultural producer.

If a road is built to connect Brazil and Guyana and additional infrastructure (e.g. a deep-water harbour and Free Enterprise Zone) is constructed, Brazilian companies could use Guyana as a trans-shipment hub to North America and Caricom.

This would also have a tremendously positive impact on Guyana's agricultural sector and provide the opportunity for Guyana to open its vast rural lands, expanding its exports to markets Brazil has already begun to explore.

Encouraged by research and funding organisations such as the US Agency for International Development (Usaid) and the UN Food & Agriculture Organisation (FAO), various Guyanese organisations and US-based investors have begun exploratory initiatives in the last eighteen months to determine the capacity of both Guyanese producers and the market infrastructure to support this transition to non-traditional agricultural production specifically for the export market. Initially supported by GO-Invest, a body set up by Guyana's government to facilitate investment, these programmes have largely matured with purely direct inward investment from foreign investors without either public or private sector assistance.

Moreover, paving the 300-mile highway to Brazil and the bridge across the Takutu River, a commitment President Lula reiterated during his recent visit to Guyana, would generate a large quantity of skilled and unskilled jobs for Guyana. This is not a new idea, initially being mooched under the Guyana 21 Plan. Furthermore, as Guyana's economic activity grows over the years and new villages are formed, other financial opportunities will naturally arise.

Immediate jobs created by this project would include construction jobs needed to build the two major highways and transportation job for drivers of large 24-wheeler trucks. They would be hauling goods for shipment out of our ports or economic free zones, another aspect that must comprise this initiative.

They would then return laden with Guyanese products for sale in the rest of the continent.

Under this plan, customs and immigration jobs would also be created to manage border traffic and to collect appropriate dues from vehicles. Border management jobs would be generated since we must open up the country, thereby necessitating strategic management of Guyana's borders against drug trafficking and smuggling.

Guyanese could set up transportation companies instead of just driving minibuses. Computer-related jobs would serve as the backbone of a sophisticated, well-run freight hauling and logistics management industry. There would also be a need for hospitality management and service-related jobs associated with increased economic activity along the roads (gas stations, hotels, motels, restaurants, entertainment, etc.).

New villages would spring up along both highways, promoting new community jobs to support agricultural and tourism opportunities. A sustained market in tourism and eco-tourism would soon develop and generate further employment since Guyana would be open and thus find it easier to attract international tourists to appreciate it landmarks and biodiversity.

As things stand, Brazilians buy 50,000 coconuts a week from Guyana and drive them back to Brazil over the dusty road to make sugar cakes. With a paved road, Guyana could make the sugar cakes itself and sell the finished goods at a competitive price.

By paving this new road to Brazil, we could be creating a whole new economic highway for Guyana – one that could put an end to the overwhelming state of poverty and want that has beset the nation. In the quest for sound economic decisions, it makes sense to focus our energy and finances on this project that promises a bright future for Guyana.

## Untapped potential

Guyana's value to South America and Caricom is enormous. Guyana is endowed with six key assets. Correctly exploited, they would secure a successful economy and a flourishing society through implementation of the National Development Strategy. These factors are:

- Guyana's strategic location;
- An abundance of natural resources;
- Highly qualified human resources;
- The potential for oil;
- Exceptional biodiversity;
- A large landmass.

## Guyana's strategic location

Export led development strategies are familiar to economists and developing world experts yet Guyana's government has been slow to embrace the idea. The development of Tax Free export zones in current ports and the development of the Tax Free Export Zone on Hog Island are vital components of a growth strategy that can be an economic driver beyond anything Guyana has known in the last fifty years.

Guyana is the only English-speaking country in South America. Bounded by Brazil, Venezuela and Suriname, it can be viewed as a Commonwealth Caribbean Island perched on the edge of a Latin continent. Brazil is a commercial giant and Venezuela has abundant oil. Proximity to the equator affords a tropical climate without making it prone to either hurricanes or earthquakes. Guyana's strategic location and sprawling Essequibo River delta make it the perfect gateway for transporting goods and services into and out of the Northern land-locked regions of Brazil and the eastern stretches of Venezuela. Heavy silting of ports in Suriname and French Guiana provide opportunities for Guyana to serve as an export port for them too. Ultimately, Brazil will need to use Guyana as a trans-shipment point, with or without the FTAA, from a purely competitive standpoint.

## An abundance of natural resources

Guyana is blessed with an over-abundance of natural resources including very fertile agricultural lands with over 200 types of fruits and vegetables, many rivers and large bodies of water, vast areas of tropical hardwood forests with over 1200 species, abundant shrimp and fish grounds and a wide variety of minerals in exploitable quantities including gold, diamonds, bauxite, manganese, uranium and mica.

Guyana's wealth of fresh water, rain forests, flora and fauna will allow it to offer other countries carbon credits under the terms of the Kyoto Protocol.

## The potential for oil

Guyana is thought to have oil and gas reserves reckoned to be greater than those of Trinidad and Tobago. This is high probable given its geography and proximity to Venezuela and Trinidad (both oil producing countries). Exploration has been sporadic even though the finding of oil would provide a significant boost to Guyana's development.

## Highly qualified and diverse human resources

Fostered by the heritage of a very high quality education system that was in its heyday in the 1960s and 1970s, the Guyanese Diaspora has produced an exceptionally high-skilled overseas-based workforce that is keen to see the country develop. Many Guyanese yearn to return home and are ready and willing to do so once good housing, good education for their children, a dependable health service network and recreational diversity can be provided to a reasonable degree.

Guyana is a multi-racial (Amerindian, African, Chinese, European, Indian and Portuguese) and multi-religious (Christian, Hindu and Islamic) society. Guyana also has a rare resource, its Amerindian Peoples and their culture. Inter-marriage has also created a large number of racial mixes. This nation's innate diversity opens doors to prospective investors from various backgrounds and cultures.

## Exceptional biodiversity

Guyana's exceptional biodiversity and vast stretches of pristine equatorial rainforest make it an important natural treasure within the Western Hemisphere that could be utilised in an environmentally friendly and sustainable manner for the benefit of both Guyanese and the global community.

## A large landmass

Guyana measures 83,000 square miles (215,000 square kilometres). Its population density is just three people per square mile while 75 percent of its landmass is uninhabited. For small Caribbean states to survive in the future, Caricom must operate effectively. In this context, Guyana's landmass could well prove vital to sustaining Caricom's agricultural potential.

As suggested above, it would be to Guyana's advantage actively to court global economic players to acquire or partner with Guyanese interests. Free markets allow ample opportunities for minerals, tourism, transportation and agribusiness industries to integrate with broader global markets, creating local jobs and new trading relationships. It would also be prudent of Guyana actively to pursue investment and sale of its companies or prospecting rights. If the resources and the businesses are ready, such relationships should not be feared, but rather welcomed as recognition of our vitality and capabilities.

## Guyana and the world

In the years ahead, Guyana will become an increasingly important country as several key issues of global and regional import take centre stage. These include:

- The Free Trade Area of the Americas or Alba;
- The geo-politics of oil;
- The geo-politics of water.

These factors could prove to be vital in the very near future as changing political landscapes and the demand for dwindling natural resources brings Western and Eastern countries to South America

With a strategic plan in place and ready to respond to the world's call, Guyana's potential may finally be realised.

## Investing in the future

The Guyana 21 Plan is an in-depth proposal to improve Guyana's economic status, enhance its infrastructure and tackle the social conundrums that have hitherto plagued the country. Guyana 21 addresses many of the problems that have assailed our nation for decades while proposing a feasible outline as a potential means of alleviating these national ailments.

The development of the Guyana 21 Plan was nurtured by philosophical, practical and theoretical underpinnings. Those involved in drafting it prompted much discussion, including debates by team members such as Bert Carter, whose knowledge of Guyana is second to none.

The words "Rebirth and Renewal" were used as the theme for the official launch of Guyana 21. They served as inspiration for the many people involved developing the Plan.

Over the last 40 years, Guyana has made precious little political, social or economic progress. After years of pursuing failed policies, the country has been dogged by racial segmentation, poor governance, and a vision inconsistent with global trends toward free market economies and participatory democracy. Moreover, it has to cope with the setback of a depleted workforce. Guyana is at a stage in its history in which it is an irrelevant global actor both politically and economically and finds itself on the verge of economic marginalization.

Guyana 21 acknowledges that, in its own right, Guyana is a country of significant commercial opportunities for any other nation. However, according to the Plan, there are 16 key "hardware" elements that would have to be implemented, which would require US$10 billions worth of investment to start the ball rolling for Guyana. Since the country does not have the capacity to finance such undertakings, it would take the interest of another country to step up to the plate on the understanding that it would have a substantial stake in future revenues from these investments.

The 16 hardware elements of the Guyana 21 Plan are as follows:

1. A high-span bridge across the Berbice River with the associated development of a commercial district;
2. A four-lane highway connecting Georgetown to the Soesdyke-Linden highway;
3. A high-span bridge across the Demerara River;
4. A highway linking Soesdyke to Wales on the West Bank of the Demerara;
5. A highway from Parika to Monkey Jump on the East Bank of the Essequibo;

6. A new International Airport capable of handling large aircraft;
7. A series of bridges and causeways linking the islands in the Essequibo Delta to Morasi and Supernaam;
8. A high-span bridge across the Essequibo River at Monkey Jump;
9. A highway from the new international airport to Makouria on the East Bank of the Essequibo;
10. A deepwater harbour and EPZ at the mouth of the Essequibo River (Hogg Island);
11. A highway from the new international airport to Morasi on the East Bank of the Essequibo River;
12. A highway from Timehri via St. Culbert's Mission to Berbice;
13. A high-speed highway from Monkey Jump via Linden to Lethem (on the Brazilian border) with the possibility of adding a parallel railway line;
14. A highway from Monkey Jump to Bartica;
15. A highway from Supernaam to Kamaria on the Cuyuni River;
16. A highway from Charity, Pomeroon to the Venezuelan border.

Given the long-term political consequences of ownership of this architecture, the opportunities for foreign companies are obvious.

Developing a free market Guyanese brand is an essential aspect of laying a solid foundation for potential investment opportunities. Marketing Guyana as "Open for Business" is crucial to our success in expanding economic opportunity. We need global markets, businesses to buy our companies and products, and create the jobs that will ensue.

The "hardware" elements of the Guyana 21 Plan are accompanied by a "software" package that is synergistic and necessary for success. The latter is defined as the ability to attract capital, the ability to persuade Guyanese human capital to return from abroad, the ability to manage these large scale projects, the ability to add significant value to village economies, the ability to make the Guyanese economy grow, and the ability to establish strong commercial partnerships with Brazil and Venezuela, countries which would significantly benefit from the deep water harbour.

Seven software elements are associated with this Plan:

1. Macroeconomic policies designed to transform, modernise and diversify the economy to make it globally competitive and relevant;
2. Nation-building policies in health, education and housing;
3. Environmentally friendly frameworks to protect Guyana's rich biodiversity for sustainable development;
4. Knowledge management and a core of highly qualified technocrats;
5. Governance that facilitates inclusiveness at a political level and financial integrity at a commercial level;
6. Strong international ties with key partners in South America, North America, Europe and Asia;
7. Strategic leadership that is competent, visionary, open-minded, non-racist and incorruptible.

Overall, implementation of the "hardware" and software elements of Guyana 21 is expected to engender the political will to open up the economy to international trade and investment while ensuring Guyanese ownership through debt-for-equity swaps, dividend-equity conversions, soft loans, in-kind contributions of land and mineral rights etc.

The over-arching goals of the Guyana 21 Plan are as follows:

- Achieving a 10-12% annual economic growth rate;
- Creating approximately 100,000 jobs over a 5-year period;
- Attracting US$300 to US$500 millions in investment annually;
- Promoting Guyanese ownership through public-private partnerships;
- Converting Guyana's natural resources into exports;
- Making Guyana a trans-shipment hub for Brazil, Suriname and Venezuela;
- Creating an exports-driven economy while encouraging food sufficiency.

Guyana's social transformation would be accelerated by implementation of this Plan since a vibrant economy would secure a steadily improving quality of life for all racial and economic groups. It would likewise nurture economic activity that is vital to Guyana's social security, dramatically improve Guyana's infrastructure both physical (roads, power plants, airports, docks, bridges) and social infrastructure (education, health, recreation), attract expatriate Guyanese to return home (with their skills, capital, technology and business networks) and ensure ongoing quality care for Guyanese children and seniors.

It is important to understand the role Guyana can play at regional as well as international level. Indeed, the Guyana 21 Plan clearly demonstrates how Guyana is ready to work toward that goal.

## Investing in the future of South America

For Guyana to transform its economy it has to become a trans-shipment point for Brazil and Eastern Venezuela. From an international relations perspective, that means forging special relationships with Brazil, Venezuela, Suriname and French Guiana. Cross-border development is vital for Guyana's growth and future economic expansion.

Guyana's public policy and civil society climate can combine to attract investment by being good investment partners, by international promotion and by enhancing the people's skills through training. Guyana has, for too long, been a victim of a stunted economic system due largely to the very types of behaviour displayed over the Banks issue. Protectionism will not strengthen this country's failing economy; it will merely further inhibit growth. An open-arms economic policy could thrust Guyana into a position to compete in the global arena and, in the process, pull the country out of the poverty that currently drags it down.

## Just imagine the possibilities

What does Guyana have to offer the world? A very great deal is the answer. This vision is captured by the following words: "Just imagine…"

Imagine Guyana five years from now…

- With a population of 1.5 million people
- All races flourishing together in harmony

Picture Guyana as a major transhipment hub serving Brazil, Venezuela and the Guyanas…

- Bursting with economic activity as the centre of an export Mecca
- With a major all-purpose airport
- A deepwater harbour that can handle even the largest ships
- A network of roads and bridges traversing the country
- A free enterprise zone at Hogg Island
- Large tracts of land available for housing or agriculture

Imagine a new economy with 100,000 jobs being created over the next five years…

- A vibrant housing industry with thousands of jobs for carpenters
- An abundance of jobs for Guyana's electricians, brick-layers and plumbers
- A flourishing eco-tourism industry
- Jobs created by an aquaculture industry
- Jobs from a rapidly expanding agribusiness sector
- Food processing jobs
- Technology-based jobs

Imagine new cities, towns and villages springing up along the highway to Brazil…

- Construction jobs for hotels, housing, roads and bridges
- Transportation jobs in aviation, shipping and road haulage
- Service sector jobs
- Import-export jobs in the Free Enterprise Zone
- Financial services jobs in banking, trade and commerce
- Telecommunications and IT jobs in all sectors of society
- Jobs for teachers, nurses, doctors and lawyers
- Professional jobs and technical jobs
- Jobs for every single Guyanese, young and old, skilled and unskilled alike

Imagine the thousands of jobs created by the Guyana 21 infrastructure programme…

- At the Free Trade Zone on Hogg Island
- At the deep water harbour
- At the new airport, especially for freight and storage
- Jobs in Berbice, Demerara and Essequibo

Imagine an educational system producing students with internationally marketable skills…

- With Guyanese Diaspora teachers returning to their homeland
- Science and technology flourishing
- Each school with a computer laboratory
- The Internet becoming as common as pocket calculators
- Where no child is left behind

Witness the country's Amerindians being treated as a national treasure...

- Flourishing in their own natural communities
- Farming their own lands
- Becoming the centre of our eco-tourism industry
- With high quality educational, health and social systems
- Highly educated and nurturing their traditional heritage
- Living in harmony with nature

Imagine Guyana's seniors being as well cared for as the rest of society…

- Excellent healthcare
- Affordable housing
- An abundance of food
- Living out their golden years in peace and tranquillity
- With recreational pursuits to meet ongoing needs
- The backbone of a new Guyana

Visualise Guyana's youth with incredible opportunities in a nation of promise…

- With meaningful jobs
- With land to build homes
- Owners of their own businesses
- Well educated in the latest technologies
- Fully engaged in developing Guyana's sports and culture
- Building healthy families and communities
- Heavily involved in promoting a strong civil society

Witness a highly successful sugar sector…

- With new management techniques for better financial support
- A more rationalised industry
- New state-of-the-art processing plants
- New lands opened up for cultivation
- A variety of new value added products
- With co-generation of power to improve profitability

Imagine a globally competitive rice industry with…

- Increased productivity through better farming
- Use of improved genetic varieties
- Greater access to credit and liberal tax incentives
- Better management procedures

Imagine a revitalized bauxite sector in a well-developed mineral industry…

- Gold
- Diamonds
- Manganese
- Copper
- Nickel
- Uranium

- Amethysts, green quartz and black pearls
- Imagine finding oil and gas

Imagine a revitalised agricultural sector that makes Guyana self-sufficient in food…

- The cultivation of many crops for domestic consumption and exportation
- With large, healthy livestock populations
- Fruit and vegetables being exported to the Caribbean tourist market
- New areas of land under development
- Self-sufficiency in meat, milk, eggs and cheese

Imagine inexpensive hydroelectric power at the heart of our development…

- Jobs in the drinking water industry
- Jobs in aquaculture
- Many jobs in a rapidly expanding recreational industry
- Jobs created by a rapidly growing energy sector
- Jobs in eco-tourism and in preserving the rain forest

Imagine a choice of recreational activities…

- 30 miles of beaches on the Essequibo
- Waterfalls and rapids
- Eco-Tourism with a diversity of fauna and flora
- The Regatta at Bartica
- Visiting our beautiful, lush interior
- Midnight cruises
- Hunting, fishing and trekking

Imagine a 10,000-person retirement community on the Essequibo or Berbice Rivers…

- Guyanese, West Indians, Floridians and New Yorkers escaping winter, earthquakes, hurricanes and volcanoes in our tranquil landscape

- Food, especially fresh fruit and vegetables, grown nearby and in abundance
- With Guyanese nurses attending them
- Everyone being better off physically and psychologically

Imagine a society of entrepreneurs…

- With land available for business opportunities
- A credit facility to offer support for fledgling companies
- Government contracts for small companies in public works
- Multiple opportunities in the infrastructure programme

Imagine a flourishing democratic and civil society…

- With racial, ethnic and cultural diversity
- Everyone safe in their own homes, businesses and on the streets
- A Constitution that is fair and equitable
- A Bill of Rights protecting basic human values
- Respect for the Rule of Law
- And politicians running for office on issues

Just imagine the possibilities! This is the future taking shape in Guyana in the hearts of the people. Now is the time to start moving toward this future by redefining the way Guyana is viewed by the region, the continent and the world at large.

## Shaping the future

Guyana is not unaware of its current lack of development, especially in contrast to the rest of the region. The people of Guyana also realise that strategic partnerships are crucial to its sustainable development and that Brazil is one such potential partner.

As a relatively small developing country, Guyana acknowledges that there are practical steps to be taken to make the Nation into a productive member of the global community.

These practical steps can lead to sustainable development and create desperately needed jobs. As global trading agreements become more complex and states focus on their own economic and physical security, countries like Guyana will have less access to traditional loans and grants.

International lending, if it has not entirely dried up, has certainly had limited impact on ordinary Guyanese with respect to jobs. Infrastructure projects may make a temporary difference for some, but they do not necessarily support sustainable development. What, then, can work for Guyana?

Strong strategic economic ties between Guyana and Brazil would be mutually beneficial to both countries and would also strengthen other Caricom countries within the Caribbean Single Market and Economy that takes effect as from January 1. The road to Brazil, the deep water harbour, the Free Enterprise Zone and the significantly shortened distance to market (300 as opposed to 1000 miles) for the landlocked state of Roraima would dramatically benefit both economies. A railway for freight would also create additional commercial synergies, efficiencies and profits.

Global trade seems to be following the trend of competing regional trading blocks. Brazil is clearly the leading economy in South America and the engine of its mighty economy could be the driver for sustainable economic development in Guyana and Caricom, as well as in other South American countries. This could easily make the continent the go-to region for agriculture, oil and much more for the next hundred years.

If there is to be full realisation of the abundant prospects that are just around the corner, it is time to connect Guyana and Brazil and for them to work together for the best possible return on the continent's potential.

Guyana and Brazil... Potential meets Opportunity. DEP

Revision: Mark Ridd.

# Paraguay's political crossroads

*Pedro Fadul* *

## Background

*"General Stroessner's dictatorship came to an end in 1989 precipitated by wrangling within the Armed Forces and the Colorado party. Today members of both groups, converted overnight into stalwart latter-day democrats, claim to have brought down the dictatorship they so staunchly sustained in exchange for generous rewards for more than thirty years."*

Like most other Latin American countries, Paraguay was governed by military dictatorships for much of the last half century. As of 1954, the authoritarian regime headed by General Alfredo Stroessner consolidated its grip on power. For more than three decades, he succeeded in establishing and sustaining a dictatorship, disguised by scant formal trappings of democracy which in those days sufficed to obtain an international letter of presentation.

The Armed Forces, the Colorado Party and the Government formed the tripod of his power base. All three were under the command of the one leader who tolerated no dissidence within this so-called "granite monolith". Under the

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long shadow of his enduring dictatorial government, Paraguay's political system took shape, and it survives to the present day. A new political culture was forged requiring every citizen unequivocally to decide how to relate to absolute power. Belonging to the Colorado Party was an unassailable requirement for appointment to positions in the administration, ranging from the upper echelons of government to heads of schools in backwater towns, and including entry to and promotion within the Armed Forces and Police. It also extended to the lavish distribution of contracts to the State's suppliers and contractors. In less demanding cases, a good word from a well-placed crony of the power brokers did the trick.

During this period, opposition parties with any intention of surviving were allowed to carry out their activities as far as the system's tolerance would extend. The limits were set at the convenience of the official party, which would begrudge limited participation, reaping maximum benefit from the semblance of legitimacy that their presence secured, without the slightest need to grant them any relevant role in return.

In an atmosphere of "peace and progress" under the aegis of a political system of "Democracy free from Communism" (as it was officially described) Paraguay's political life unfolded for three and a half decades. More than one generation of Paraguayans were raised under its tutelage, assimilating the practices encouraged by carrot and stick at all levels of public life throughout the country. The local branches of the Colorado party were the true centres of power in the most remote reaches. Official institutions and local authorities were subject to its dictates. Besides exercising power to further its own interests, it spun a web of fealty and loyalty which, albeit in decline, subsists to the present day, fostered by actual rewards or the prospect of receiving them. More often than not, it is the very need to survive and the lack of options for attaining a decent standard of living outside of the system imposed by the government party that have proved its mainstays. This political culture has succeeded in blurring distinctions between the State and the ruling party, making the authorities in command of the latter the genuine power brokers.

The demise of General Stroessner's dictatorship was precipitated by disputes surfacing within the Armed Forces and the Colorado party. Today members of both groups, converted overnight into stalwart latter-day democrats, claim to have brought down the dictatorship they so staunchly sustained in exchange for munificent hand-outs for more than thirty years. Those opposing the regime, through either open political opposition and or in armed groups bent on toppling the dictator by violent means, at the time proved unable to achieve the objectives they had set themselves in their entirety. They have, nevertheless, bequeathed to present generations and the victims of the regime (yet to obtain full recognition and fair compensation from the State) a lasting legacy of dignity.

Paraguay's political system, born and bred under the dictatorship, subsists to the present day, more than fifteen years after the demise of General Stroessner's authoritarian government. Full co-participation in dictatorship of a political party with broad, grassroots support has been a singular feature of the country's political life. That co-participation had plenty of strings attached. Indeed, it allowed a single party to hold sway while nurturing a political culture based on cronyism, liberally supported by government funds. Today, though outright authoritarianism is no more, its mentors and acolytes have not so much as essayed any self-criticism. Much less have they shown an inclination to modify the political system or even to replace the players who upheld the regime, subsequently opposed it, and today unabashedly enjoy the illegitimate benefits the dictatorship afforded only one political party. Meanwhile, those who without belonging to the regime voiced opposition to it in the hope that they might garner popular support have failed to provide level-headed criticism. Instead, they have resigned themselves to half-hearted acceptance of the new official version that the Colorado party was merely yet another of the dictatorship's captive pawns – without question a very peculiar, royally maintained captive. The process of transforming the prevailing political culture and replacing it by another actually grounded in the principles of democratic praxis edges forward. At times it would appear to have ground to a halt or even to have gone into reverse. Disillusionment and repeated setbacks have been the tonic of this brief democratic interlude.

Since democracy was reinstated in 1989, poverty has grown to alarming levels with almost half the population living below the breadline. Citizens' security – gauged by people's effective ability to come and go and to see their property protected – has suffered unprecedented degradation. Rural unemployment has risen considerably as non-labour-intensive production procedures gain ground in agriculture and animal husbandry, with the attendant swelling of slums on the outskirts of urban areas. At the same time, the meagre middle class have suffered the side-effects of a dire economic crisis that has severely eroded their standard of living, forcing many to emigrate. Paraguay's primary production system has been clearly cleft in two: on the one hand, a primitive agricultural model dogged by low yields and very low incomes, with subsistence farmers denied access to markets and capital; on the other hand, a highly specialised cattle breeding and agricultural sector capable of competing on the international market. The other two thirds of the economy are either run by the State or take the shape of illegal, informal trade.

The year 1992 saw the enactment of Paraguay's new Constitution, which instated a new institutional framework. More than thirteen years on from then, it has revealed its light and shade. One major shortcoming has surely been the administration of Justice. Rather than acting as an impartial judge of society, the Judiciary has become a chaotic labyrinth of negotiated sentences that cannot inspire confidence in even the most optimistic citizen. Another clear shortcoming has been the quality of those elected by popular suffrage. This applies particularly to members of congress, whose track record and suitability can hardly explain their election, still less their re-election. Some analysts point to the inadequate institutional design the Constitution established in 1992 as the root cause of poor performance from the new institutions and from democratic procedure, claiming that genuine power lies not in debate among political parties, much less among citizens. Rather, it is wielded by groups that have commandeered formal institutional structures to advance their own interests.

The deterioration of much of the public system and also of the private sector has reached such extremes over the past decade that it calls into question their very continuity. The system operates through a curious combination of legality and illegality. Indeed, this admixture not only serves as its dynamo but also furnishes it with vital sustenance. The situation is such now that anyone determined to combat the system needs only to be invested in public office to become an accomplice of corruption. They are immediately faced with the choice of "turning a blind eye" to irregularities for a time in the hope of later being able to correct them or of adopting a stance of strict legal enforcement. The short-term effects of the second option would be to unleash dire economic consequences for already debilitated public finances and for both illegal and legal sources of employment without distinction.

Without perceiving this system in its entirety or closing its eyes so as not to see it, social criticism in such cases has been implacable. It is whipped up by a press loath to depict anything but the most sensational aspects of events. Rigorous, balanced appreciation of the facts is an outright exception. At the same time, not the least collective desire to combat this system of illegal, informal activity can be glimpsed. Far from being bitterly castigated, it is widely practised.

Moreover, this double public standard is not confined to political spheres, the customary den of vices, but is brazenly encroaching on such demanding institutions as the universities, associations, the press, trades unions and even the churches. Criticism of the status quo is not well received, and those levelling it are obliged to soften their tone since society as a whole cannot tolerate open attacks on its "vital lies." Those daring to expose such lies to public scrutiny are tarred with the brush that uncomfortably brands them as undesirables.

Accustomed to recurrent disillusionment and unable to detect the causes of the harsh predicament afflicting it, Paraguayan society as a whole reacts with extreme attitudes, dismissive even of initiatives designed to retrieve the country from its present state of prostration. The accusing finger is pointed with wrath and conviction not at those identified as being responsible for their plight but at those who might prove capable of extricating the country and its citizens from these dire straits.

## The Challenge of Development

> *"Allegiance to democratic values in Paraguay has always been frail. That frailty is made more acute when the political actors within the democratic system prove incapable of providing better living conditions for all."*

The most pressing challenge is development. Paraguay's citizens realise that democracy has yet to prove its worth to a country that has only recently placed its chips on it. Capacity to generate well-being will be the irrefutable proof of the benefits to be reaped; and that proof is expected in ever shorter terms. Allegiance to democratic values in Paraguay has always been frail. That frailty is made more acute when the political actors within the democratic system prove incapable of providing better living conditions for all. It does not take much nowadays for people to renounce democratic principles. A reasonably credible promise that living conditions can be better than those afforded today is all it would take for the electorate to relinquish part – even a substantial part – of the freedoms democracy vouchsafes. This is the challenge Paraguay must squarely face: if living conditions do not improve on an increasingly tighter timescale, endorsement of the democratic system will become increasingly flimsy.

Decades of authoritarian, dictatorial rule urged the entire nation to press for the rights that had so long been denied them. Attention focused on democracy in the belief that its consolidation would suffice to produce a substantial improvement in the standard of living for all citizens.

That has not been the case. Consolidation of democracy has not yet been achieved; much less has democratic rule managed to deliver sufficient development to convince and rally the diverse active sectors of society. If progress has been deemed wanting with regard to democracy, as far as development is concerned it can simply be considered non-existent or even in reverse.

Despite the virtually exclusive focus on forging democracy, Paraguay is daily faced with the fragility of its institutions and a dearth of the public welfare they should provide. Besides compounding destitution, these failings come to be seen as deterrents, as excuses for not rising to the challenge of development. As a result, instead of each party shouldering its portion of blame, all continue to await ideal institutional conditions which, paradoxically, only development itself can deliver.

However inconclusive it may be, perhaps the time has come to declare the much vaunted "Transition to Democracy" complete and for us to focus now on another challenge: "Promotion of Development in Democracy". Paraguay's citizens must concentrate on the task of forging their own future, devoting themselves wholeheartedly and efficiently to the work required for that end. That is the only way to ensure the wavering wedlock of democracy and development can weather the years ahead, since their destinies are inextricably intertwined.

There are those who describe the democracy featured in Paraguay today as full democracy since it is furnished with a minimal institutional structure and conforms to the democratic rites of periodical election of its rulers. Others classify it as merely formal, simply going through the motions of democratic procedure but as yet far from displaying the necessary essence of democracy per se. There are also those who impute it to be a perverse travesty of democracy masking the identity of the true power brokers and the way they manipulate power to advance their own sectarian interests.

Whichever view one ascribes to, the course plotted over the past fifteen years of democratic rule has gone from exalted expectation to indignation, taking in disillusionment born of repeated setbacks and apathy that spills over in abject, explosive outbursts. This is the web woven around today's citizens, institutions and political players. They are caught between the stools of overblown expectations engendered by urgent needs and of a combination of human and material resources too slight to deliver even passing consolation to a nation disinclined to countenance delays and yet incapable of offering alternative responses. Paraguay's citizens realise that the residual political model of the dictatorship is gradually waning and will eventually disappear from view but that its successor is not yet ready. For the time being, they tolerate a system based on patronage and cronyism for, despite its perversity, it is a familiar, predictable paradigm. For the time being, they refrain from impinging democratic punishment which, were it to reflect their true collective state of mind, would be prodigious and implacable.

Notwithstanding, the reaction of the citizenry and political forces opposed to the present system has failed to advance beyond bitter complaint and indignation. Ensnared by sectarian interests that jostle in a primitive civic, media and political environment, they have not managed to find efficient means of forging an option for change capable of attracting broad sectors of society. When attempts have been made in this direction, goodwill has succumbed to voluntarism and turpitude, the natural response of a mediocre political class unable to keep pace with the demands of new democratic times. Encouragement for shouldering such a task is by no means abundant. The distant prospect of success, the incapacity to engage in binding commitments and medium-term ventures, and the temptation to resort to populist ploys all conspire against such faltering initiatives.

The present political model is presided over by the Colorado Party with the occasional backing of disenchanted dissidents from other political sectors (apparently content with the as yet scant quest for an alternative model). It should be said that the experience of the past fifteen years of democratic rule has shown that it can hardly (and probably does not wish to) become the harbinger of change. This can be put down to unwillingness on the part of those who see little to gain and much to lose by embarking on such a venture. They probably suspect that a new model based on different premises will in all likelihood round on those promoting the change should they hail from the heart of the present system. The question that remains to be answered by those intent upon taking up this challenge from within the prevailing system is whether it is possible to keep a group of people cohesive and motivated for action when the glue that binds them together is precisely the obstacle that must be removed. Responding to this conundrum with action is the real challenge for those resolving to tackle the system from the inside. That is an ineluctable task attending establishment of a new model for the country that sets aside the present party-state, the abolishment of which is the first requirement for a model seeking renewal. Otherwise, we shall have more of the same (as has been the case to date) painted over with novel tints that may distract and deceive the population for a while.

## Beyond Indignation

> *"The course of democracy has brought us to this: to flailing despair that rebuffs any initiative; to the refusal of optimism before the possible prospect of another deception."*

Whether or not this state of affairs is to our liking, we must concur that this is Paraguay's present predicament. That, then, must be the point of departure from which to plot our course.

We have all come to this: to indignation at a reality deemed unjust; to attributing blame for this sorry pass to anyone outside our home or neighbourhood; to ascribing the cause of collective and even individual wretchedness to the public powers that be; to disabling impatience whose only means of expression is bitter complaint or apathetic resignation; to generalising disqualification that nips in the bud incipient and as yet timid attempts to bring about change; to flailing despair that rebuffs any initiative; to forfeiture of optimism for fear of further disillusionment. This is what we have all come to, brought here by the teetering course of democracy. This is the bend in the road Paraguay is travelling. It is thus pertinent to surmise what lies beyond the present collective state of mind, how to travel the path that will lead us beyond indignation.

## A New Paradigm of Power

> *"Any process of political and social convergence is complex. Concert designed to last and achieve relevant results is never the fruit of chance or improvisation."*

Let us consider the following focus on the issue of Public Power. Today, Paraguay has two basic requirements:

1. A reform programme which, if properly implemented, will enable the nation to achieve the full development it so ardently desires and has to date failed to obtain after almost two centuries of independence; and

2. The country seriously needs a good government, a government capable of implementing and sustaining this process of reform until it takes root as a new national political culture.

These two elements would substantially modify the rationale of access to power. Political parties would then cease to be obsessed with access to power as their sole objective and an end in itself. They could then concentrate on bringing to power governments capable of setting in motion a process for transforming the entire nation. The objective of good governance neither proscribes nor overrides the objective of coming to power, it encompasses it.

Access to power would then be viewed as a necessary means, but no more than a means for achieving higher ends. If this goal alone (access to power) is attained, the objective of good governance will still be relegated. If, on the other hand, this is the prime objective, the necessary conditions for attaining good governance, in terms of both platform and governance, will become the compass bearing galvanising the action of political parties and social groups in search of a new model for political praxis.

Some may view this as mere statement of the obvious. The way politics is currently practised in Paraguay, though, would suggest otherwise. Among political parties, as much as among social organisations and even individuals, gaining access to power continues to be seen as an accomplishment and a value in itself, and only goes deeper in terms of how it is wielded.

Thus, even opponents of the official party and independent political analysts are full of praise when they refer to its capacity to stay in power for so long, leaving aside the way it has acted to do so, how it has consolidated its grip on power and maintained it. Likewise, no association is made with how it wields that power. They neglect to mention that for thirty-five years power was conveniently shared between a dictator and a political party. Throughout that time, the latter lost no opportunity to enhance its power by establishing an extensive network of loyalties, strengthened both by a genuine sense of belonging and, above all, by a cunning combination of lucrative backhanders and threats of reprisals.

In this context, one must ask what role the forces of renewal that have not been a part of this decadent political social system should play. The system seeks to camouflage itself and entice into its ranks unwary politicians with a veneer of renewal who may then lend the party a semblance of a new face to avert its demise. What role should those seeking to forge a real alternative power play to avoid merely switching political colours and badges? How should they act to ensure power is exercised according to the rationale of that alternative proposal?

The existence of different political parties and the emergence of new political movements in the national arena is no coincidence. It reflects the distinct inclinations and allegiances of different sectors of Paraguayan society. Denizens of social organisations have also emerged on the scene pursuing a profusion of sectorial agendas over the past decades. The present make-up of the party political scene corresponds to the expectations of diverse groups of citizens, moved less perhaps by ideological convictions but rather clustering around personal preferences on which the traditional *caudillo* model thrives in our political arena.

Faced with such a scenario, the question that must be answered is: can the diverse political and social sectors bury their differences and draft a joint alternative political project? And if that were to be the case, what must this combination of forces for renewal do to stand any chance of success?

Any process of political and social convergence is complex. Concert designed to last and achieve relevant results is never the fruit of chance or improvisation. Such endeavours must subscribe to a set of principles and rules suited to the reality of each time and country. It is a broad, complex process that requires perseverance and patience since a complex web of groups, individuals and systems must be woven.

Forging unity is the delicate work of a goldsmith. It requires a generous, open mind for politics is done with men who have their own interests and ideas as well as their feelings. Leadership is vital in such circumstances, leadership built upon popular support and due democratic process. It also depends upon liaison and cooperation among leaders hailing from the different sectors promoting renewal, leaders capable of establishing relationships based on mutual respect, trust and even appreciation.

We envisage this process developing through at least three distinct phases.

The first phase must be one of retrospection. Each political and social group must observe itself, assess its own performance, identify its strengths and weaknesses, and suggest ways of addressing or correcting its shortcomings. That will lay the foundations for a civic space that is mature, reliable and predictable with efficient, democratic self-governance. This is all homework, and each group must act as it sees fit in this respect. It requires a high degree of political maturity and courage, which must form the bedrock for the adjustments to be made within the organisation – not always an easy task.

In the second phase, the ideological, programmatic and operational foundations must be laid for a future renewal coalition. This crucial phase cannot commence unless the first phase has been successfully completed. Otherwise, it will prove a recipe for failure, be it in electoral terms (a lesser hitch) or in terms of government (which would certainly prove an unpardonable setback for the republic).

The third and final phase, then, consists of a binding commitment. The conjunction of political and social forces is a medium to long-term undertaking. Its complex features and (at times diffuse, at others conflicting) interests grounded in a dream inevitably bespeak tough times and even dire crises ahead. These can only be overcome if the firm original decision can rise above and beyond conjunctural interests like an unassailable beacon. The compass bearings must be given by unwavering commitment to a shared objective to which all subscribe with unflinching conviction. The commitment must be as strong at grassroots level as among the leaders. To date, all such endeavours have faltered when they have to grapple with their first internal differences, which have generally proven irreconcilable.

The itinerary proposed demands that attention be focused initially on certain key aspects which experience in other countries has proved to be highly relevant. Only then can a concerted drive for renewal stand a reasonable chance of accomplishing its objectives. These aspects include:

*Functional objective*: Attaining good governance. A renewal initiative should aim to install "good governments" in the republic, constituting a reliable alternative for the exercise of power. This functional objective should be converted into a higher goal that will not be dragged down by the visceral "let's become the official party of power" or overwhelmed by ambition for power and the positions it commands.

The new government must prove capable of setting in motion a process of political transformation that definitively eschews the ploys sustaining the status quo: graft, cronyism, obsequiousness, messianic, overbearing leadership, subordination of institutional form to a populist approach pledging radical, almost magical, short-term solutions.

*Firm commitment and democratic discipline*. The desire to provide an alternative project should be grounded in an unfaltering, long-term commitment. It should steel lukewarm, erratic willpower with a real vocation for co-administering the government. That demands of each group (and of all of them together) a high level of commitment and democratic discipline, besides a capacity to reach agreements and implement them over time, preventing parties' internal dynamics from jeopardising such agreements. Letting oneself be carried away by electoral enthusiasm without the solid foundations that secure positive relations is a guaranteed recipe for disaster.

*Solid programmatic underpinnings*. A project for renewal should not be confined to achieving merely electoral objectives. It must be guided by and based upon solid programmatic underpinnings, carefully crafted through joint endeavour, and capable of binding leaders and supporters alike.

*Medium and long-term process*. Transforming a political system is not a straightforward task, nor can it be accomplished in a short timespan. Sights should be set on the coming decades at least to allow not only for incorporation of new paradigms in the sphere of political relations but also for implementation of state policies that will only bear fruit in the medium and long terms.

*Capacity to settle conflicts*. Experience shows that initiatives congregating distinct power groups have survived until the first instances of dissent raise their heads. Disagreements will always exist, despite the will of the participants and the tactful way relations among them are handled. Mechanisms must therefore be established for decision-making and settlement of differences and conflicts. These must even include provision for withdrawal in the event of an irreconcilable impasse.

Above all, it is necessary to engender the start-up conditions for a political renewal project. Success depends upon the right start-up conditions. To embark on a complex project with fuzzy objectives and half-baked decision-making lacking either conviction or commitment, seeking purely electoral victory and in league with anarchical political or social forces is to court disaster.

Success is of the essence. A project endeavouring to introduce a new political culture, a new model of political praxis cannot afford to end in failure. Should it stumble when it comes to exercising power, the country will be left with no viable options for a long time.

As it enters the 21st century, Paraguay has clearly reached a crossroads. It must choose between continuing with the present political model or embracing a new paradigm based on democratic values and principles reaching well beyond the incipient formal democracy we have hitherto managed to forge. This means genuinely and actively subscribing not only to the concept of power being used to the benefit of the people but also to (not merely formal) respect for the republic's institutional life. These two elements should form the backbone of this new political culture which should engage the people, who have so far known little else than caudillos who command and vassals who obey.

## Conclusion

> *"Paraguay's present political model is in its death throes but the new model and those destined to lead the transition process have not yet emerged."*

The challenge of our times for those convinced the writing is on the wall for the perverse status quo in Paraguay is to fashion a new political model for the country. That means creating a genuine alternative "for power" and not just an alternative "to the powers that be". The prevailing model has been of one party absorbing the State, subduing it to its own ends with the tools of political sinecure, corruption and cronyism. That model is on its deathbed, but its successor is not yet to hand. Creating an alternative to the present model is a task that remains to be accomplished, despite the widespread urge to change the country's degrading predicament, the sad legacy of nefarious governments sprung from a single political tendency for half a century.

Acknowledgement of this plight, however, has still not made it possible to lay the foundations that might secure some chance of success for an alternative project. Being ensnared by the quest for power, making a merely electoral bid one's sole objective, is to run the risk either of repeating the experience of bad governments in Paraguay and Latin America or to court electoral defeat, which would merely dash expectations of possible achievement.

The task of building the much touted "alternative power" capable of instating a new "political model" has yet to be completed. Neither concept has been clearly defined, so providing a clear-cut definition is precisely where that task should begin. A joint initiative can offer a shortcut for meeting the challenge, provided it follows the lineaments described above. Otherwise, the building of an Alternative Power will fall foul of the particular designs of each political group or party. In that case, chances of success would prove slim indeed. DEP

Version: Mark Ridd.

# The great transformation[1]

*Ollanta Humala* *

*"…always to consider Peru an inexhaustible source of inspiration..."*
J. M. Arguedas

## Presentation

### Who are we?

We, men and women, are citizens, rural and urban workers, who daily struggle to earn in decency and dignity bread for our children; dedicated professionals, teachers, and workers in the areas of health, education, culture, science and technology, and basic services; young and elderly people; intellectuals and thinkers; and incipient entrepreneurs—all desirous of a great transformation on our Peruvian soil aimed at recovering our homeland's riches and possibilities and at forging a grand national and Latin American integration project embodying the highest ethical and moral virtues of our fatherland's men and women.

### What do we want?

Our nationalist proposals are geared to a program of historic scope aimed at transforming Peruvian life and the life of our peoples with justice and freedom.

Differently from the exultant, warlike nationalism of the great imperialist countries, characteristic of recent modern history, our nationalism is anti-

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[1] Selected topics of the "Government Plan 2006-2011".

imperialist, defensive, and redeeming, inspired on the legacy of José Carlos Mariátegui and Víctor Raúl Haya de la Torre.

We assert the unity of our people and of our fellowmen from all Latin America for building the South American house and strengthening the congenial Andean community as well as defending the Amazon space and environment and approximating ourselves to our brethren in the Southern Cone.

We want our natural riches (land, sea, and forests) and our productive forces to be at the service of our nations and of our coastal, Andean, and Amazon peoples.

We want a continental regionalism and nationalism integrated into the great world currents, as we want globalization to be solidaristic, multilateral, and equitable, so as to form part of a sharing mankind.

We want to eradicate the corruption that coveted the Fujimori–Montesinos neoliberalism because we want a free, independent, and sovereign State respectful of human rights.

## Whom do we represent?

We represent the vast, historical nationalist movement that fights for a Nation with justice and liberty, aspires to a solidaristic globalization, and challenges the Washington Consensus' policies and transnational power, which intends to keep our Latin America and Peru under imperial control.

We represent a historic multicultural, civilizing movement toward a great transformation in Peru and South America. We form part of a mighty worldwide movement that wages a battle against the great economic and political powers of imperial neoliberalism.

We are the quiet force that emerges in Peru as the harbinger of a national, productive, emerging project aimed at reclaiming the rights of the majorities excluded from the fundamental liberties of life, access to culture, food, quality education, health, and justice.

We also represent our fellow citizens who suffer aggression from the racism of a self-absorbed, excluding minority. We are the voice of the excluded coastal, Andean, and Amazon peoples and of emerging, enterprising Peruvians.

### The unity of the entire people

We thus call upon all to help build a new political identity as revolutionary, modern Peruvians and the unity of all the people against excluding neoliberalism.

We are going to establish a new alliance under a State reformed by our political action to reclaim the excluded Peruvians of always, the ruined producers, now jobless or underemployed, the impoverished farmers and peasants, the incipient entrepreneurs, the anguished middle class, the national entrepreneurs oppressed by the transnational capital—all the honest men and women of our fatherland.

To make this great national project into a reality, we ask for the help of nationalist, democratic, progressive, anti-imperialist, and socialist Peruvian men and women. We want to listen to them and with them draft our main economic and social proposals, reclaim our natural resources and particularly our policies conducive to a social, democratic State, capable of meeting the scourge of corruption and of reaffirming our ineludible commitment to human rights.

We express our commitment to the now excluded majorities so that we can, together, build the solid moral reserve of a higher Republic.

## Economic policies and productive transformation

### Long-term objective

Our dream is to achieve a national economy that encompasses the excluded citizens on the coast, the mountains, and the rain forest, integrating them into a country we will construct together, with equal rights and duties, made up of modern producers and consumers enjoying equal opportunities—a country free of racism and the social inequality that separates us, with political stability based on austerity norms for the exercise of government.

In the country we want, children and the young will be healthy, nourished, strong, educated, and happy and will have access to employment and just income. Women will not be harassed or discriminated on the basis of gender, our elders will live out their years in decency and dignity, and handicapped Peruvians will be entitled to a place and affection.

## Expanding internal markets with a view to the country's industrialization

The Peruvian economy today suffers from structural problems:

(a) Social inequality owing to the lack of sufficient employment and income, which subjects the vast majority of the population to precarious living conditions;
(b) A pattern of growth based on primary exports, whose long-term sustainability is limited owing to the effect of raw material cycles we have historically experienced;
(c) Weak or inexistent sectoral and intersectoral coordination of production and geographical connectivity. In particular, there is no connection between industry and farming on the sierra and the rain forest;
(d) Internal markets are small and participation in foreign markets is still less than the country's potential would warrant; and
(e) The road and infrastructure network linking economy, geography, and demography is still insufficient for creating new internal markets and expanding the existing ones.

These problems have not been solved by neoliberal policies that favor investment in the traditional primary sectors, disregarding ecology, internal markets, and industrial, agroindustrial, and agricultural and livestock production.

This is why we must do away with excluding, worn out neoliberalism—the old system that reverted our economy to a primary economy and dollarized it, the system that has ripped apart the country's social fabric and forced the young to emigrate.

A system that took dignity away from employment and led to meager income; that reduced the State's authority and weakened the Nation, economically and socially marginalizing whole populations on the coast, the sierra, and the rain forest, depriving them of even the benefits of crumbles, which never fell from the wealthy's table.

It was this system that, impoverishing us not only economically but also politically and culturally, injected us into international finance and economy, in which we play a role that is dependent of and submissive to the interests of big transnational capital.

Our dream is to change this situation, to restore in the Peruvian Nation and its children the self-esteem and dignity of free men.

Our objective is to change the current primary exports pattern of economic growth; to create production clusters, starting with our natural resources and rising to the highest degree of productive transformation so as to add value to our production; to use modern science and technology as productive factors; and to deconcentrate and decentralize the production apparatus by creating and expanding internal markets beyond their regions. And it is time we should open ourselves to the world according to or own interests, socially integrating the country and ensuring food security for our people.

We will thus resume the leadership of activities that generate added value.

We will develop our internal markets and expand the existing ones for sustaining growth over long periods. We must create stable jobs and improve wealth distribution.

With activities that generate added value spearheading growth and are anchored on coordinated internal markets, our economy's competitiveness on international markets will improve, while the share of nontraditional, manufactured, and agroindustrial products in overall exports will increase.

Our development strategy is turned both inwardly and outwardly; its starts in the interior but opens up to the world.

Globalization has shifted the emphasis of economic policies from the domestic to the external markets. This is why neoliberals "condition" the countries' future to the signing of the Free Trade Treaty-FTT.

We, nationalists, propose to increase our economy's productivity and competitiveness through the development of internal markets and of all the country's regions, as well as through the participation of Peruvian enterprises in industry, agroindustry, fishing, mining, agriculture, and in the transformation of our raw materials into factory-finished products, with a view to expanding our markets and our share in export markets.

Accordingly, we concur with the main agrarian and rural organizations, which deem it essential that parliamentary representation in the next legislature should decide about the convenience and appropriateness of this FTT and other trade treaties involving trade in agricultural and food products, similar to treaties signed by some Asian countries as well as by some Latin American countries.

Just as they wish to export our savings abroad, the neoliberals "condition" the country's future to the signing of the Free Trade Treaty with the United States.

They claim that they view competitiveness as the lever of development but forget that the utmost objective of competitiveness is to increase productivity and that there is no need to link this objective to neoliberal trade policies.

Increased productivity improves the population's living standards as it increases per capita income, lowers the unit costs of production, and enhances the capacity to compete on international markets.

Unless the productive apparatus is integrated with Peru's geography and society and unless there are economic corridors and interconnected production clusters that start with our natural resources and continue up to final industrialization, no free trade treaty will provide a long-term development opportunity. When internal markets expand, the resulting increase in specialization raises productivity and accelerates growth. The geographical expansion of the internal market impels the growth of production, orienting it to both internal and external markets.

As regards our sea, fields, and mines, natural resources should be transformed by the creative hand of Peruvian workers and the initiative of and impulse from Peruvian entrepreneurs, to be consumed or exported with value added by our labor. We want a great productive development project.

Creating and expanding internal markets require interconnecting the country's different geographical and demographic areas. This requires investment in infrastructure (ports, warehouses, roads, railways, sanitation, electricity, telecommunications, and education) to foster new lines of production and increase the demand for current production.

This is an effective, sustainable way of multiplying jobs and income, reducing poverty, improving the population's quality of life, and increasing competitiveness, thereby triggering growth and development conducive to social integration.

## Macroeconomic stability

One requirement of this strategy is undoubtedly a modicum of macroeconomic stability. Macroeconomic stability preserves the purchasing power of people who live from their work, and fuels investment. It strengthens the national currency and gives impetus to the nationalization of the economy and the dedollarization of bank portfolios, a heavy burden created by neoliberalism. We will thus keep prices low, so that people's income will not be eroded, hold inflation at an average 2.4 percent a year, and maintain a strong sol with a stable and competitive exchange rate to give impetus to the transformation industry geared to exports, under the responsibility of an independent, autonomous Central Bank that will optimize the administration of our international reserves.

### *Monetary and exchange policy*

- A regime of low inflation and exchange stability will prevail.
- This low-inflation regime will be based on an institutional monetary policy of explicit inflation targets that will turn around 2.5 percent, with a deviation of more or less two points;
- Inflation will remain one of the lowest in our region and one of the lowest in the world as compared with our major trade partners;
- We will keep inflation at levels without precedent in our country's modern history; and
- The relative price structure resulting from monetary stability will strengthen the production of nonprimary goods for the internal and external markets.

This monetary stability institutional system encompasses the following:

- An autonomous Central Reserve Bank-CRB independent in its objectives and as an instrument, whose management is based on professional and technical foundations (macroeconomic forecast models), transparence, and accountability;
- Definition of explicit medium- and long-term inflation targets;
- Application of a monetary authority response norm; the operational instrument will be the interbank interest rate in national currency.
- A Taylor-type monetary rule that incorporates the effects of inflation deviation from is target; the gap between actual product and potential product and the variation in agents' expectations; and, with respect to dynamics, the inertial factors and the probabilistic evaluation of the occurrence of risk factors in possible scenarios;

- A free, stable, flexible exchange regime.
- A stable, flexible exchange rate regime under free international movement of capitals, with no ceiling or threshold; and
- The CRB will make use of the most varied financial instruments to attenuate the volatility of the exchange rate (significant currency appreciation or depreciation) through instruments such as sterilized investment in open market operations, the purchase or sale of foreign currency, nominal deposit certificates, and indexed certificates of deposit, among other instruments.

Reduction in volatility ensures a stable, free, and flexible exchange regime that adds to the competitiveness of exports. The CRB will thus regulate the operational limit of the Pension Fund Administrators' portfolio of investments abroad, in accordance with portfolio yield, risk, and security and the development of the domestic capital market.

### *Credit democratization*

We will enhance the efficiency of financial intermediation, expediting the gradual, voluntary dedollarization of agents and transactions, asserting the international role of the national currency, and substantially improving the independent supervision and regulation of the financial system, so as to protect the agents and the public from high financial volatility.

The democratization of access to credit requires the elimination of the barriers stemming from the segmentation between major users applying for credit and the other clients; the application of regulatory criteria to reduce exposure to the risk of credit supply concentration; the improvement of banking coefficients; and the improvement of instruments to protect savers.

Intermediaries specialized in microfinance and microcredit will be encouraged by the transfer of technological capabilities to manage their portfolios, particularly in the Andean and Amazon rural environment.

### *Optimum level of international reserves*

An open, partially dollarized economy can be protected from international fluctuations by a reserves level and an exchange position that permit facing speculative attacks against the national currency. International practices measure an optimum reserve level based on the relation between the liquid international reserves level and the sort-term debt in dollars. Often only the short-term foreign debt is included, although it is also possible to add current maturities of the long-term debt. A "more acid option" consists in including the dollar deposits of the banking system.

If this last indicator is applied, the ratio of liquid international reserves to short-term debt in dollars, including the dollar deposits of the banking system, will always be higher than one, above its critical level.

### *Fiscal and tax policy*

Fiscal policy will be countercyclical and will have automatic stabilizing effects. It will pursue a low-deficit course to ensure the fiscal sustainability of the debt in the medium term and raise the rate of public investment to comparable international levels.

We further commit ourselves to the responsible management of a State we envisage as austere and just. It is a question of maintaining a fiscal policy that will ensure that the deficit will not surpass one percent of GDP. We will adopt measures conducive to savings and higher income to ensure sustainability.

To this end, we will undertake a comprehensive tax reform to broaden the tax base and raise collections to 18 percent of GDP over the next five years.

We will ascribe greater weight to direct taxation to redress the neoliberal taxation's inequitable bias, which favors indirect taxation. Accordingly, collection efficiency and equity criteria will be adopted as instruments for improving income distribution.

Fiscal decentralization will be the object of an agreement between the central government and subnational governments, establishing firm, lasting rules.

We will abolish tax exemptions and special tax benefits. We will also revise, in consultation with the parties, the tax and legal stability contracts in force in accordance with the law. There will be no more Tax Stability Agreements.

We will review regional and sectoral tax exemptions that do not achieve their objectives. We will incorporate incentives in the form of tax credits for production enterprises to reinvest profits. We will tax profits to reestablish the distributive justice principle.

The cyclical bias of the fiscal policy will be neutralized by amendments to the fiscal responsibility and transparence law and the introduction of a countercyclical fiscal rule.

Public investment will be freed from contraction pressures that occur when tax revenue drops during the cycle's recessive phase.

The fiscal policy will ensure the continuing growth of the country's foreign assets within sustainable limits. The country's contingent assets will be journalized in geological-mining, energy, and forestry projects and in other projects with real potential, as a preparation for utilizing the public sector's patrimony accounting.

### *Restructuring of the external public debt*

The public debt will be audited.

We will proceed with the restructuring of the public debt so as to contribute to the sustainability of the fiscal policy and make room in the budget for public investment. We will also modify the structure of public spending financing, reducing the debt's exposure to market risks and extending its duration as well as increasing the internal debt's share in the total debt. We will thus ensure the sustainability of the fiscal policy and create more room for public investment.

A liabilities management program will be implemented for the following purposes:

- To deconcentrate servicing of the short-term debt (refinancing risk) with operations to extend the debt's average life and duration;
- To reduce the debt's exposure to variations in the exchange rate and external interest rates (market risk);
- To reduce the debt in current and present value; and
- To improve the country's credit position; this will reduce the cost of future financing.

To reduce the service on the public debt in the coming years, the following operations will be undertaken:

- Prepayment;
- Substitution of external debt with internal debt;
- Bonds exchange;

- Coverage of exchange and interest rates; and
- Exchanging debt for investment, with emphasis on environmental, educational, and public infrastructure projects.

The development of the domestic sovereign debt market will be intensified; this will permit modifying the current financing structure of financial and nonfinancial spending.

The strengthening of the internal market for public debt in soles will permit the maintenance of a public indebtedness profile at acceptable risk levels, by increasing the internal debt's share in the total public debt, so as to reduce exchange and interest rate risks.

### *Budget and quality of public spending*

We will modify the methodology for allocating budgetary resources that maintain an inertial and incremental character, as it is based on the spending structure of previous years; then, the allocation of available additional resources will be discussed.

We will substantially improve the quality of public spending. It is necessary to assign proper priority to actions or to allocations according to different alternatives, and to actions that guarantee access to basic services for poorer people. Moreover, the ex-post evaluation of budget execution will have a greater weight on the decisions about resource allocation in the subsequent period.

To change this situation, we will adopt the following measures in the different phases of budget preparation:

- **Programming and formulation**
  - Reduction of the discretion, arbitrariness, and inertia level when setting budgetary ceilings; and
  - Introduction of a pluriannual budget that will complement the multiyear macroeconomic framework, with input from and participation by civil society, at the central, regional, and local levels;

- **Approval**
  - Strengthening of the professional technical and financial advisory teams of Congress's Budget Commission and ensuring their

permanence so as to preserve the continuity of the basic criteria of budget preparation; and
- Application of the cost-benefit measuring criterion and indication of the effects of the budgetary norm on the population.

- **Budget execution**
  - Evaluation of the restrictions encountered by budget executors and introduction of significant improvements, particularly in administrative procedures;
  - Divulgation of the main elements of budget execution so that the public may be aware of how the tax money is spent; this will enhance *tax consciousness and culture*; and
  - Divulgation of the origin of resources by financing sources, evasion levels, tax progression, concentration of the tax base, and the tax structure for each government level.

- **Budget evaluation**
  - Publication of the budget evaluation results and of the criteria that will provide feedback for budget formulation and execution procedures.
  - Systematization of independent, technical evaluation of the budget;
  - Annual Rendering of Accounts by the Executive Branch to Congress; and
  - Achievement of specific political commitments for improving allocation and execution of public spending as a result of budget evaluation.

- **Quality of public spending**
  - Universalization of the management of *participative budgets*, which permits the assignment of priorities to activities and projects with the people's participation. These participative budgets strengthen participative democracy and democratic governance, as well as promoting national private investment, because of the input of the economic players in the definition of priority projects; and
  - Granting the greatest representativeness to participating agents and civil society in the monitoring of the participative budget process,

by extending support to local roundtables and technical networks, so as to avoid guideline decisions counter to previously agreed decisions.

## Independent, Sovereign Foreign Policy

### Assumptions of Policy and State in International Relations

Peruvian foreign policy's ultimate purpose is the State's consolidation and survival, i.e., the strengthening and preservation of the national territory, its population, sovereignty, and governance. Foreign policy's formulation will be based on the definition of the national interests.

Our assumption of politics as a creative, transforming practice on the domestic front holds true on the plane of international relations also, in which it will play a structuring, architect's role in giving shape and content to a new international political order based on law, equality, and social justice.

Only politics has the power to organize the international system, govern globalization, and lead the States toward an order that takes into account all the distortion factors in an international system, such as the problems related to cooperation, trade, finance, the environment, technology transfer, political violence, and poverty.

Only well-established States with their forms of negotiation can civilize capitalism and make possible a higher degree of governability in a globalized world. A world governability model is possible only if it is based on full respect for the will of the nations, as expressed by their respective States.

Politics has been set in motion and been converted into the gravity center of the historic development we are now experiencing. The configuration of a new world political order is now measured by the governing skill of its statesmen.

We will restore to the State its architect's role in the political construction of the future and as subject and main source of international public law.

### Friendly neighbor relations

Peru is a polyvalent territory. It is the depositary of our millenary history and at the same time has maritime, Andean, and Amazonian characteristics that define the immediate spheres of its foreign policy.

Diplomatic relations with bordering countries without border infrastructure to unite them are merely rhetorical. We will thus promote the construction of means of communication with our neighbors, so that we can share integrated political views of development.

We will favor our relations with Brazil, with which we share the Amazon region, the Amazon River, and a strategic location in the South American region, as well as many views of development and foreign policies. In particular, we will give impetus to ties with the Acre-Rondonia-Mato Grosso-Mato Grosso do Sul region. We will do the same in respect of Bolivia, to which we are united by a historical, cultural, and blood community and with whose new government we share fundamental positions on various political issues. We will also attach special importance to the members of the Andean Community, while acknowledging the increasing economic and political weight of Venezuela, a key country for its strengthening.

We will also give impetus to our bilateral relations in different areas of political understanding and of cooperation with other countries of Mercosur and of Latin America.

With Chile we will maintain a policy of mutual respect, as well as economic relations conducive to mutual, equitable benefit. Furthermore, we will review the military spending homologation and arms control policy.

## Democratic security

Our security policy will encompass all political methods to face the dangers coming from outside, potential conflicts, threats to our existence, or attempts at domination. At the same time, we will promote peace by multiplying cooperation fronts with countries whose interests are in opposition to ours.

## Strengthening the Andean Community

We will strengthen the Andean Community, and especially its political dialogue capacity, and propose that an Andean Energy Commission be set up for developing a major petrochemical industry in our subregion to provide goods, services, and jobs and with capacity for international political and economic negotiations, similarly to OPEP. By working in this essential sphere of energy production and of establishment of a petrochemical industry, in marketing, and in the development of the requisite knowledge, we will seek, as a result, to achieve a significant degree of positive, symmetrical interdependence among our countries. We will propose the establishment of common structures and institutions.

## Building the South American House

We will resort to political logic, in light of the trends for reordering the structure of world politics, to propose proceeding further with the design of a political project of our own in the South American space, endowing it with effective capacity for international negotiation, for making itself heard, and for coordinated participation in the great issues on the international agenda. We will propose a South American Security and Cooperation Organization, thereby expanding the South American Community of Nations, a first step toward a Latin American Union, into which would converge the following concerns: interregional security; political cooperation and measures against terrorism, drug trafficking, and organized crime; integration, cooperation, and development, coupled with the interlinking of already existing institutions; and respect for the democratic system, the rule of law, and citizens' rights.

Integration, cooperation, and development will foster intraregional trade. Over half of world trade is concentrated in regional markets. Two thirds of European Union's trade is internal. Mercosur's internal trade nearly equals a fourth of its share in world trade. We will raise to a treaty level the South American Regional Infrastructure Integration initiative, in the framework of the South American Security and Cooperation Organization.

## A multipolar world

We are not party to the configuration of a unipolar world in the realm of international politics. We will back the efforts of the great powers, such as the Russian Federation, the European Union, the People's Democratic Republic of China, and Japan and of other regional powers, toward the structuring of a multipolar world that would impart equilibrium to the international system and allow more room for the political action of developing countries, such as Peru.

## Active multilateralism

We will seek a more efficient functioning of all the components of the United Nations and attach special importance to their role in the establishment of a world order based on strict adherence to Public International Law. We will implement initiatives to reform the United Nations' bodies related to development, cooperation, and financing matters in light of the distortions stemming from the globalization process. We will also give a new impetus to our participation in the specialized UN, FAO, Unido, and Unicef organisms, among others.

At the United Nations we will push for an international regime for promoting and safeguarding a just and equitable distribution of the benefits derived from the use of genetic resources, so as to prevent biopiracy. We will advocate greater influence by the United Nations on the development of a system of fair economic relations, on global economic policies in the area of foreign trade and financial relations, as well as on its interaction with the Bretton Woods institutions, the WTO, and other multilateral structures. We will endeavor to democratize international relations and particularly the financial organizations such as the IMF, the World Bank, the Iadb, and the multilateral trade organizations such as the WTO.

## Solidaristic globalization

The globalization process does not apportion its benefits in an equitable manner between developed and developing countries that adhere to its neoliberal dogma. The industrial countries account for only 15 percent of the world's population and yet they always talk about a globalize world.

Major gaps and asymmetries persist in the global society. Under this process, the vulnerability of developing countries increases, owing to the instability of the global financial markets. We refuse to remain as open societies as long as the globalization gains are not fairly and equitably shared. Mere economic opening does not generate sustained development or increase the productivity of enterprises, nor does foreign trade alone lead to lasting growth rates. We refuse to let the market decide for Peruvian society.

The lack of acquired knowledge widens the gap between rich and poor countries. A key objective of Peru's economic foreign policy will thus be the acquisition of knowledge capital, so that our foreign trade may become more competitive worldwide, thereby increasing our productivity and making our economic development more sustainable. We will seek knowledge in industrialized countries and will not refuse foreign entrepreneurs or foreign capital for impelling forward our specific industrial and agroindustrial policies, thereby strengthening Peruvian entrepreneurs and favoring the establishment of mixed enterprises in the context of a strategic development plan.

The economic aspect of the globalization process should not entail abdicating politics or the State. Peru will have a strong State that should be the engine of development and should act in areas in which only the State can intervene. We will develop both our internal and our external market. We will thus join the globalization process in a more autonomous, sovereign manner. We propose to win greater access to the international markets, eliminate their asymmetries, impose limits to the distortions of the international financial system, reduce the excessive volatility of international short-term capital flows, revamp the Bretton Woods institutions, strengthen the G-20, and achieve a World Trade Organization with more equitable rules.

## United States of America

We will preserve our autonomy and independence in our asymmetrical relations of interdependence with the United States. We will share a common political stance, as, in our understanding, democracy in Peru will achieve full legitimacy only when the State will be in condition to meet its internal social demands. We will cooperate in security matters related to combating terrorism and drug trafficking. We will negotiate the terms that by right are incumbent on Peru in respect of the exploitation of our nonrenewable natural resources, through the State's control and participation, the incidence of added value on exploited resources, and the establishment of mixed-economy enterprises, in the context of an economic policy that will strengthen the State and raise the quality of life of the Peruvian population, as one of its basic elements.

We will propose the elimination of the Inter-American Reciprocal Assistance Treaty – Tiar, as it has become an obsolete Cold War instrument, which did not function at the time of the English aggression against Argentina (Malvinas).

## Western Europe

We see Western Europe as a power pole that is a source of technology and investment and as one of Peru's major trade partners. Europe points the way for the integration of strong States and the exercise of democracy, in addition to other fundamental values for cultivated populations. We will intensify the dynamics of our bilateral relations with the European countries, by creating and strengthening mechanisms of dialogue, consultation, and cooperation, as well as through the promotion of reciprocal cultural relations, European investments in Peru, and trade flows accompanied by increased Peruvian exports with higher added value. We will give impetus to the political dialogue and cooperation between CAN and the EU and will further the negotiations to arrive at an association agreement between the two regional blocs.

## Eastern Europe

We will strengthen our relations with Russia, the great Eurasian power and a Permanent Member of the Security Council. Peru endorses Russia's objective of seeking a multipolar order that does not admit the monopoly of or dominion by any power or group of States over world affairs. Peru also feels empathy with its opposition to the replacement of basic structures of Public International Law under the allegation of "humanitarian intervention" or "limited sovereignty."

The nationalist government will share with Russia its stance contrary to the minimization of a sovereign State's role in preventing threats of interference in the internal affairs of other countries. With Russia, we will foster trade and investments, as well the establishment of mixed enterprises.

## Asia and the Pacific Basin

We will expand our political, investment, trade, and technical cooperation in areas such as seismology, agriculture, desertification, aquaculture, environment, and archeological resources with the countries of Asia and the Pacific Basin. We will pay especial attention to the many possibilities of also expanding nonreimbursable financial cooperation with Japan, which is also bound to play a major role in the multipolar world aborning.

## Trade and investment

We will promote the access of our diversified, competitive exports to major markets. We will attract stable financial resources in the context of the new economic policy. We will pursue, both at the bilateral level and in the international organizations, the elimination of nontariff measures, discriminatory treaties, phytosanitary regulations, and other protectionist measures that hinder the expansion, diversification, and competitive placement of our products on international markets.

The strategic planning of national development will seek to attract foreign investments that can bring in advanced technology for development projects and private entrepreneurial activities that generate employment and exports.

We will abide by a stable treatment of foreign investment in the context of an economic policy that will ensure that the inalienable rights of the state are respected, as well as the rights of the Peruvian people, the immediate beneficiary of the resources generated by our raw materials. China, with a similar regime, has received one fourth of foreign investments received by developing countries.

Peru will resume its participation in Asia-Pacific Economic Cooperation-Apec, particularly in its economic, trade, and technical cooperation mechanisms.

## Foreign debt

In assuming the foreign debt, we will seek to lead the creditor States and financial organizations into committing themselves to recognize the burden this debt represents for our economy and the need to find multilateral mechanisms to lighten its weight and bilateral solutions to make its restructuring possible.

## Projection of our culture

Ours is a historic, millenary culture that should dispose of instruments to impress its character and vigor on international relations. Projection of our culture will be a major instrument of our foreign policy. It will define our presence and enhance our prestige in international relations. In many higher studies centers in the world both Quechua and our historical past are objects of study. We will pay special attention to the signing of agreements aimed at encouraging, in a sustained, coordinated, and consistent manner, the deeply-rooted expressions of our historical as well as of our modern culture, which encompass crafts, literary works, cinema, music, apparel, fashion, and cuisine and Peruvian ingredients, among other things.

## Peruvians abroad

Approximately two million Peruvians live abroad. Their remittances rank second as a foreign financing factor in our economy and Peruvian communities around the world witness the dynamism of Peruvian relations with the receiving countries. We will define and fine-tune policies aimed at improving the situation of Peruvians on foreign soil by providing consular assistance and information about their country, and facilitating the issuing and processing of documents, registration, and identification to promote their rights and duties away from home. Special attention will be paid to the equivalence of professional titles accredited on a reciprocal basis.

## A revised consular policy

We will intensify the protection of and support to Peruvian communities abroad, as they form part of the Peruvian population, which is one of the State's constituent elements. Accordingly, the work of Peruvian Consulates will not be limited to the mere rendering of efficient services but will include keeping ties to these extensions of our population abroad, seeing that they fully exercise their citizen's rights, and assisting them promptly and attentively.

My fellowmen, these are some of our proposals for the realization of a project for a just, free Nation. This is our serene, affirmative answer to the lies, insane diatribes, and violent campaign unleashed against our nationalist, popular position.

I call upon you to work with greater intensity for our victory on April 9, to organize yourselves, to support the sanest representatives of our people in beginning the great economic, social, and moral transformation of our fatherland. DEP

Version: João Coelho

# Suriname: macro-economic overview, challenges and prospects

*André E. Telting**

## 1. Country background

**Fact sheet:**

- 2004 GDP: US$ 1.65 Billion
- Real GDP Growth 2004: 7.8%
- Real GDP Growth 2001-2004: 5% p.a.
- 2004 GDP / capita: US$ 3,085
- Unemployment 2003: 7%
- Infant Mortality Rate 2003: 30 per 1,000 births
- Life Expectancy Rate 2003: 69.1 years
- Adult Literacy Rate 2003: 88.0%

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- Population 2004 (mid-year): 487,024; 2/3 of the population resides in capital Paramaribo
- Main Exports: Aluminium, Oil, Timber, Fisheries, Shrimps, Rice, Gold and Bananas.

## Recent Political Developments

Fair, democratic elections took place on May 25th 2005. President Venetiaan was re-elected, and the new administration (referred to as "Nieuw Front Plus") comprising the previous government's "Nieuw Front" coalition, enlarged by two other political parties (AC and DA 91), represents broader segments of society. The ruling "Nieuw Front Plus" coalition has 29 seats in Parliament out of 51 (57%). President Venetiaan favours continuation of sound macroeconomic policies, enriched with new ideas for accelerated social and economic development during his third term as President of the Republic.

## Key Foreign Policy Issues

Among the different governmental policies importance is attributed to intensified diversification of international cooperation with Caricom, aiming at the formation of the Caribbean Single Market and Economy in the near future, and with the South American Community of Nations, which aims at promoting an integrated South American area in political, social, cultural, economic, environmental and infrastructural dimensions.

In the multilateral field, the Surinamese government pursues the strengthening of relations with institutions such as the IADB, IsDB, EU, EIB, UN, IMF, WB, NAM, OAS, among others.

In its bilateral relations, the policy of the government is to consolidate existing relations with the Netherlands, USA, France, India, Indonesia, China, Japan, Brazil, Venezuela and other countries. The Surinamese-Guyana maritime dispute is under consideration at the International Tribunal for the Law of the Sea.

Pro-active foreign policy resulted in the appointment of Mr. Albert Ramdin, a Surinamese diplomat, as OAS Assistant Secretary General on July 19th 2005.

## 2. The Economy

### Economic Performance and Outlook

In percentage terms real GDP recorded an increase in the 2002-2006 period, rising from 2.1% in 2002 to 5.2% in 2005, with a growth of 5.1% forecast for next year. Average percentage CPI inflation dropped from 15.5% in 2002 to 9.5% in 2003, with an estimate of 9.3% in 2004, policies aiming to achieve single-digit inflation in 2005 and 2006. The Budget balance, as a percentage of GDP, went from –4.4% in 2002 to 0.7% in 2003, –0.8% in 2004, –7.9% in 2005, and –9.3% being expected for 2006. The BOP current account balance, as a percentage of GDP, has steadily improved, moving from –11.8% in 2002 to –11.4% in 2003, –9.2% in 2004, and 3% in 2005.

A recovery of the Surinamese economy has been engineered in the past few years, resulting in persistent growth. According to the IMF Staff Report for 2004 Article IV Consultation, "Economic growth accelerated reflecting increased mining output and a return of confidence as a result of a more stable macroeconomic situation". Real GDP grew at an average rate of 5% in the 2001-2004 period.

The unemployment rate declined steeply from 14% in 2002 to 7% in 2003. According to GBS estimates, the informal sector accounted for an average 20.5% of real GDP between 1995 and 2002, and contributed greatly to employment figures.

The Surinamese Dollar (SRD) was introduced on January 1st 2004 to replace the eroded Surinamese Guilder. The new currency simplifies calculations, transactions and overall economic activities while symbolizing a new era of sound financial management. It can be said that the Surinamese Dollar has successfully traversed the teething stage, as the exchange rate has remained stable and inflation has continued its downward path.

Inflation fell from record highs to single digits. In the March 2003 to March 2004 period, inflation figures turned into single digits, at 9.5%. Average and EOY inflation are estimated at approximately 9% and 8%, respectively. Inflation is expected to remain in single digits in 2005.

As for the exchange rate, there has been a convergence of the official and commercial rates due to prudent monetary policy and fiscal discipline. The stable exchange rate has contributed to low inflation and gathering confidence in the economy.

## 3. Developments in the Real Sector

### Engines of Growth

Bauxite: In February 2002, Suralco completed the US$ 65 millions expansion of its refinery capacity six months ahead of schedule. Annual aluminium output capacity rose from 1.95 million mt to 2.2 million mt. Due to logistical problems, temporary importation of bauxite was unavoidable between January and June to prevent under-utilization of the refinery's capacity. The feasibility study of Suralco and Billiton regarding expansion of their activities to the western region of Suriname is well advanced. Both companies intend to construct a smelter with a 340 kmt annual output capacity, an aluminium refinery, new mines, a new hydroelectric dam with a capacity to generate 650 MW, and other infrastructural facilities. These investments are feasible for proven reserves of 300 million tons of bauxite. To date, 45% of the Bakhuis area has been explored and a total of 170 million tons of bauxite gas has been proven.

Gold: Foreign Direct Investments by the Canadian company Cambior in 2003 (approximately USD 95 millions) resulted in formal production start-up in April 2004. Investments are expected to amount to USD 25 millions in 2005. In the 10-year period ending 2014, investments of USD 790 millions are expected. Output for 2005 is estimated at 320,000 ounces (10,000 kg) representing an export value of some USD 138 millions. Production of 177,600 ounces in the first half of 2005 exceeded the 101,400 ounces output for the first half of 2004. In 2005, Cambior is providing employment for more than 1,100 workers, including contractors. Government revenues are expected to amount to USD 12.4 millions. Cambior has recently entered into an option agreement with two parties in the Tapanahony and Sarakreek area, located some 75 kilometres south of the Rosebel project.

Others: In August 2004, Alcoa World Alumina LLC signed a joint venture agreement with Newmont, a Denver-based gold mining company, for exploration in the Nassau area. Another large-scale activity involves preliminary exploration in the Bensdorp area by the state-owned gold mining company Grassalco in conjunction with the Canadian Canarc Resources. Prospects for both areas appear highly promising.

Oil: Potential reserves of 15 billion barrels of crude in the Guyana Basin have been estimated by the United Nations Geological Survey's 2000 World Petroleum Assignment. The 2005-2010 Staastsolie multi-annual policy aims at the expansion of onshore production, onshore and offshore exploration, the construction of a 15 MW power plant, the expansion of marketing and sales, and the expansion of its refinery. Investments required for this multi-annual plan amount to USD 378 millions, which will be jointly financed by Staatsolie (66%) and external creditors (34%). In this regard, steps have already been taken, such as preparations for the construction of the power plant in 2004, involving an investment of USD 16.5 millions. Construction is scheduled to be completed in 2006. Staatsolie signed production-sharing agreements for offshore production with the Spanish Repsol YFP in April 2004 and with the Danish Maerks Oil in November 2004. In August 2005, Staatsolie concluded negotiations with the American Occidental Petroleum Corporation for the exploration of another offshore block. Staatsolie acquired 30 percent of the stock of the Trinidadian-based company Ventrin Petroleum Company Limited in August 2004. Shareholders of Ventrin also include investors from Trinidad and Barbados.

Bananas: Production and exports were resumed in March 2004. Export revenues (FOB) are expected to reach 18 million Euros in 2005 and 30 million Euros in 2006, up from 4 million Euros in 2004. Investments in 2004 totalled USD 6.2 millions and are expected to reach USD 8.2 millions in 2005 and USD 5.9 millions in 2006. A total of 1,482 people were employed in the sector in 2004, and the workforce is expected to reach 1,523 in 2005 and 1,608 in 2006.

Aquaculture: foreign direct investment in shrimp farming spanning an area of 1,530 hectares began in May 2004. More than 300 jobs are being created. The project is due for completion in 2005. Production and processing will commence immediately and will be entirely destined for lucrative export markets.

Palm oil: An agreement has been signed between the Surinamese Government and the Chinese company China Zhong Heng Tai Investment Co. Ltd. to convert a forest area of 40,500 hectares into a palm-oil plantation with four oil processing units. Total investment is USD 116.6 millions over a 12-year period, of which USD 62.5 millions are anticipated for the first six years. The labour force is expected to increase gradually to reach approximately 5,500 (mainly recruited from Suriname) after investments have been completed. A steering group, installed in November 2004, will monitor implementation of this project, the start of which is due in October 2005.

Tourism: Tourism is Suriname's most recent promising, fast-growing sector. Approximately 1,000 people have been trained by the Suriname Tourism Foundation in the last two and a half years, reflecting growing potential. Financial support from the EU, the Canadian International Development Agency, the OAS and Unesco has proven instrumental in projects already implemented and in progress. Preliminary estimates for the development of the sector point to the creation of 6,000-7,500 direct jobs and an equal number of indirect jobs. Tourism indicators for 2003 relative to 2000 show significant increases in the number of tour operators (100%), travel agencies (44%), and holiday resorts (70%). International tourist arrivals were up by almost 14% in April 2005 compared to April 2004.

## 4. Monetary and Fiscal Management

Monetary policy measures in the 2000-2005 period were as follows: replacement of the credit ceiling and introduction of a system of reserve requirements; removal of exchange rate ceilings following convergence and stability of the parallel and official exchange rates in June 2004; and adjustment of the official exchange rate in response to market forces. It should be stressed that the adoption by Parliament of amendments to the Central Bank Act in May 2005 has strengthened the Governor's authority.

With initial ratios of 35.0% for domestic currency and 17.5% for foreign currency, the Central bank created a low interest mortgage facility from reserve requirement in order to promote the private housing sector. In July and October 2004, the Bank lowered the reserve requirements on domestic currency to 32.5% and 30%, respectively. In November 2004, reserve requirements on foreign currency were increased to 22.5%. The increase of the reserve ratio on foreign currency to 33a% in February 2005 has served to minimize the discrepancy between both reserve ratios, and is expected to discourage the preference for foreign currency loans vis-à-vis domestic loans.

In December 2004, the official exchange rate appreciated slightly from SRD 2.77 to SRD 2.75 per USD. In May 2005, pressures on the foreign exchange market urged the Bank to adjust the official exchange rate to SRD 2.78 per USD.

## Monetary Performance

The 1999-2000 period witnessed a major expansion in money supply caused mainly by monetization of fiscal deficits. In 2000, the money supply almost doubled owing to government borrowing from the Central Bank. Measures taken by the previous administration (2000-2005) have since resulted in a sharp decline in money supply growth rates, which fell to 3.9% in 2003. The surge in 2002 was the result of a one-off average wage increase of 60% for civil servants. Strict control of expenditures by the government helped lower money supply growth to 3.9% in 2003. Wage pressures were virtually non-existent in 2003 and 2004, reflecting a wage policy consensus amongst trade unions, the government and business organizations. In 2004, monetary growth amounted to 28.2%, due both to net credit to the government from commercial banks and to net exports.

## Monetary Policy Challenges

The monetary situation presents harsh challenges which must be addressed through the continuation of a stringent monetary policy consistent with low inflation, prudent management of liquidity and solvency risks in the relatively highly dollarized banking system and curtailing of lending to the government, by means of a ceiling set at 10% of budgeted revenues for the fiscal year.

## Institutionalized Fiscal Discipline and Fiscal Policy

In conjunction with a tight monetary policy stance, there has been strong adherence to fiscal discipline. The Government Debt Act (March 2002) restricts the government to a ceiling of 15% of GDP on domestic debt and 45% of GDP on foreign debt. It stipulates that were the Finance Minister to exceed these specific ceilings without Parliament's approval, he would face a maximum 10-year prison sentence and a maximum fine of SRD 2 millions. The Government Debt Act also assigns the management of government debt to a new institution, the Bureau voor de Staatschuld (BSS). The BSS became operational as of November 2003 and was set up with technical assistance from the Iadb in cooperation with Crown Agents from the United Kingdom. Following adjustments in 2003, it needed to focus on measures designed to boost inflows and control expenditure. In 2004, the government intensified its revenue collection efforts and simultaneously tightened public spending. Concerns of another hike in the civil service wage bill were allayed when the government and the largest labour union, CLO, agreed upon civil service pay rises of 5% in March followed by another 5% in September 2004. This set a benchmark for wage negotiations in other sectors. Although the 2005 budget displays an overall deficit of 7.9% of GDP, the actual performance of the Government in the first half of 2005 indicates that this is unlikely to materialize. Due to a continued tight fiscal policy stance, inflows and expenditures balanced early during the first half of 2005 (overall fiscal deficit stood at -0.02% of GDP). The 2006 budget submitted to the National Assembly for approval shows an overall deficit of 9.3% of GDP. Based on the performance of the government in recent years and its commitment to tight fiscal policy, it can be assumed that this deficit will not materialize and will be substantially lower.

## Fiscal Performance

In 1999 and 2000 a stark discrepancy was observed between government revenues and expenditures resulting in large overall fiscal deficits. Measures taken in late 2000 (e.g. a 3 percentage points increase in sales tax, introduction of a lottery and casino tax as well as higher import duties due to the upward adjustment of the official exchange rate) led to higher government revenues in 2001. Simultaneous tight control on spending ultimately resulted in a substantial decline of the overall fiscal deficit from –12.8% of GDP in 2000 to 0.4% of GDP in 2001. The fiscal deficit in 2002 widened to 4.4% of GDP owing mainly to a one-off 60% rise in civil service pay, which was lagging behind salaries in the private sector. In addition, the civil service pay structure was fraught with glaring disparities addressed via the rise in civil service wages. The overall government balance shifted to a surplus of 0.7% of GDP in 2003, reflecting the results of measures for improving revenue and controlling expenditure. These measures included, among others, a temporary (one year) 10% surcharge on income tax for the highest personal and corporate incomes bracket, the adjustments of lottery tax from 5% to 10%, on prices, and from 15% to 25% on retail sales, no adjustments to civil service pay, and a tight rein on other categories of expenditure. In 2004, the government managed to keep the fiscal deficit under 1% of GDP, despite an increase in capital expenditures and the abolition of the temporary 10% tax surcharge levied in 2003. In addition, the government granted civil servants a moderate phased wage increase, which did not produce inflationary pressures.

## Government Revenue and Expenditure Trends

In the first half of 2005, the government managed to keep the budget almost in balance despite increased election-related expenditures.

## Public Sector and Institutional Reform

The main goal of public sector reform is to improve the organization and efficiency of the government sector so as to enhance its effectiveness. The main components of the reform are reorganization of the civil service, rationalization of state-owned enterprises, institutional strengthening of the planning and monitoring framework, decentralization, and private sector development. In this respect, the following steps have been taken: installation, in February 2003, of a steering committee (9 Ministers); installation of a technical committee, also in February 2003; an agreement signed between Suriname and Undp for development of a strategic plan for PSR in February 2003; an Iadb grant for a project to develop a strategy for long-term modernization of the State (road map for the PSR), the duration of which will be June 2004 – December 2005; synchronizing of Undp and Iadb projects to avoid overlaps; financing of USD 5 millions secured via a loan agreement between Suriname and the Iadb for the Public Sector Strengthening Program in August 2004; privatization of three major state-owned enterprises, namely the SRO rice company, the Sbbs banana company and the Bruynzeel lumber company, now in the final stages; restructuring of the four state-owned banks, for the completion of which several studies have been carried out with support from the IDB, recommendations being forwarded to the government; a pilot project on decentralization already being implemented with assistance from Iadb.

## Institutional Reform

Forthcoming legislative developments are to include amendments to the Investment Act, a new Foreign Exchange Act, a new Supervision Act on Financial Institutions, and an Act on Insurance Companies.

## Fiscal Policy Challenges

Maintaining fiscal discipline and fiscal liability as well as containing wage demands are of the utmost importance to price and exchange rate stability. It is thus necessary to redouble tax collection efforts in order to increase the government's revenue base.

## 5. Government Debt

As of 2001, Suriname has maintained its government debt levels within the Maastricht criterion of 60% of GDP. Preliminary figures from the Bureau voor de Staatsschuld (Debt Management Office) show a significant decline of the government's external debt-to-equity ratio. As of 2002, the government's external debt to GDP ratio has been well below the 45% ceiling.

### Government External Debt by Creditor

The bulk of government external debt is owed to multilateral and friendly donor countries on favourable concessionary terms. The main creditors are multilateral agencies such as the Iadb, EIB, and the Islamic Development Bank, and countries like the USA, Brazil, the Netherlands, Japan, China and India.

## 6. The Financial Sector

The government has committed itself to modernizing the financial sector. New legislative instruments are expected to enhance the supervisory powers of the Central Bank significantly. Reform of the banking system requires the adoption of a series of measures. These include: updating of the regulatory framework in line with the Basel Core Principles for Effective Bank Supervision (completed); restructuring of the four state-owned banks with assistance from Iadb, following studies on financial evaluation of the state-owned banks (completed); improving access to financial services (completed); and identification and assessment of reform options (completed). The cornerstone of modernization will be a new Banking Supervision Act. The current Banking Supervision Act will be replaced by three legislative instruments which are currently being drafted: Act on Financial Institutions to supervise Banks and Credit Unions; Act on Insurance Companies for supervision of Insurance companies; and Act on Pension and Providential Funds (completed).

## 7. External Accounts

### Balance of Payments on a Cash Basis

The volatility of the BOP in recent years largely reflects the country's reliance on international market conditions for its export commodities and for the inflow of capital.

### Balance of Payments

Improvements have been made with regard to the reporting system and coverage of transactions between residents and non-residents. Although commodity exports (aluminium, gold, crude oil and agricultural products) benefit from the current favourable prices on international markets, the current account balance has been recording a persistent deficit as of 2001. This reflects net outflows mainly due to transport expenditures, travel expenses, dividend transfers by the bauxite companies, and interest payments on external government debt. As of 2001, the aforementioned current account deficits have been offset by net capital and financial account inflows resulting in overall credit balances, except in 2002 when the current account deficit rose by almost 56% and net private and public capital account inflow was negative. The large surplus in 2001 was largely due to disbursement of the USD 123.8 millions NIO loan. The rise in the overall balance in 2004 was mainly the outcome of declines in current account deficit (7%) and capital account outflows (43%).

### Liberalization of International Trade

A process of gradual liberalization has been initiated since the early nineties, the aim being to clear away impediments to trade, stimulate exports, channel foreign exchange transactions back into the official system, enhance efficiency, and reduce costs in the economy. The first phase involved moving away from the fixed exchange rate and allowing residents to possess foreign currency holdings and make forex deposits at both local and foreign banks. Subsequent phases are to include the removal of a license requirement for importation / exportation of services, license requirements for importation and exportation of most goods, and abolishment of the requirement to surrender proceeds from exports of goods and services. The next phase involves the removal of the license requirement for international capital transactions as a consequence of Suriname's membership of the Caribbean Single Market and Economy. On-going liberalization, encouraged by multilateral institutions, and (regained) macro-economic stability has had the following effects: higher efficiency in both international trade transactions and the exchange market; repatriation of capital and increasing foreign exchange deposits at local banks; and investments in the mining and agricultural sectors, among others. As a result, importers / exporters no longer have to cope with time-consuming licensing procedures. Exporters are also free to decide when to sell foreign currency holdings, affording them more effective leverage on the price of foreign exchange. Financing of imports with "own funds" reduces pressure on the banking system to supply foreign exchange for import transactions. Foreign currency holdings by residents have increased substantially over the years.

Increased foreign exchange holdings have prompted the Central Bank to impose foreign exchange reserve requirements and to adjust the reserve ratio regularly so as to steer the process and minimize risks.

## 8. Growth Prospects

### Prospects for the Mining Sector

The bauxite and aluminium industry is set for further expansion. Major investments by Suralco and BHP Billiton in Western Suriname, totalling USD 2.5 billions, involve a new aluminium smelter with an output of 340 kmt and construction of a hydroelectric plant with a power generation capacity of 650 MW.

### Prospects for the gold sector

Prospects are likewise bright. Cambior's Gros Rosebel gold mine officially began operating in April 2004. Ensuing benefits include increased employment. More than 1,100 workers are currently employed. Additional jobs will be created in the second phase of construction. Corporate taxes (as of 2007), royalties (2% of sales) and personal income tax will boost foreign currency earnings. In addition, 0.5% of sales proceeds will be set aside for social projects. Output is expected to increase by 15% in 2006.

## Oil sector performance

Staatsolie's multi-annual plan aims to increase recoverable onshore oil reserves from 85 million barrels in 2004 to 2,115 million barrels. Moreover, offshore investments are being anticipated based on the production-sharing contracts signed with the Spanish oil company Repsol YFP and Maersk Oil from Denmark. A third production-sharing contract is pending with the American Occidental Petroleum Corporation.

## Economic Diversification Away from the Mining Sector

Diversification of economic activity in the following sectors will definitely boost the country's foreign exchange earnings:

Tourism: the following projects sponsored by the Suriname Tourism Foundation have been / are being implemented:

a) Integrated Tourism Development Plan. This program is implemented with technical assistance from Carl Bro, a Danish Consultancy Bureau, and is funded by the USA. The main elements are institutional strengthening and legislation, product development, and human resource development.

b) Training program: financed by the Canadian International Development Agency (completed).

c) Small Tourist Business Project: financed by the Organization of American States (completion scheduled for December 2005).

d) Unesco Youth Path Project: focusing on human resource development (October 2004 – December 2005).

Palm oil: foreign direct investment in the palm oil sector by a Chinese company will provide a substantial increase in employment, foreign currency earnings and overall economic activity in the eastern part of the country. DEP

Revision: Mark Ridd

# Uruguay's insertion into the world economy: a political and strategic view

*Sergio Abreu*[*]

Since the end of the last decade there has been a series of debates in Uruguay about specific, situational issues related to its insertion in the world economy, such as the pros and cons of its participation in Mercosur and compliance with is obligations thereunder, economic relations with the United States, Latin American integration, and similar topics. Most of these issues are discussed in connection with punctual political objectives, without the necessary interrelation, without a strategic vision, and often with a lack of knowledge of concepts, information, and basic rules pertaining to the subjects under discussion.

To some, Mercosur has been a failure and has curtailed Uruguay's development possibilities. To others, it provides a refuge from the "perversities"

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of globalization and of the transnational capital and the powers that covet it. Regional integration is seen as a history of frustrations or as the source of solidarity that will solve a goodly portion of our problems. These differences interfere with the possibility of defining consistent development policies and strategies as well as policies for insertion into the international economy.

But Uruguay has much to think about and to decide in respect of its insertion into the international economy. In the course of 174 years of political independence, Uruguay has had to define—explicitly or implicitly—the terms of its insertion into the world economy. During this lengthy process, our country's original role among regional and world powers, which prevailed in the 19th century, gave way to a model of a country centered on the predominance of the State and on its management of society and the economy, which was characteristic of a major part of the 20th century, and ends up with the effects of globalization on a society that has not yet finished to define a new development and coexistence model.

The turn of the century was dominated by the most serious economic crisis in our history, followed by a remarkable recovery accompanied by major changes in the direction and composition of external flows. This political, economic, and social crisis reminded us of our vulnerability and evidenced the frailty of the instruments being applied and the importance of those that have been postponed.[1] The recovery, the expectations about the development of the international economy, and the policies of the other Mercosur partners place us in a fluid scenario, in which we must engage in analysis and definition with a strategic vision of our options, actions, and negotiations. It is essential that the debate be moved from a situational to a strategic plane and from punctual concerns to an integrated vision of insertion into the international economy that takes into consideration the political, social, and economic aspects.

## 1. Political and strategic aspects

Insertion into the international economy involves all aspects of the country's external relations, both with the world at large and within the region. It encompasses foreign policy, economic relations, and the different aspects of

[1] Particularly the mechanisms of consultation and coordination of macroeconomic management and harmonization of incentives to investment, production, and exports within Mercosur.

Uruguayan society's interaction with the outside world. Although we concentrate ourselves on the economic aspects of insertion into the world scene, we should not lose sight of the fact that economic relations are part and a determining factor of foreign policy.

The political and strategic view of external economic participation presupposes that it is both an instrument and a condition of the national development strategy. It is an instrument because it must serve the development strategy. It is a condition because the options for insertion into the world economy are limited by the structural characteristics of production and the domestic market, the allocation of factors, and geography, as well as by the characteristics of the global market and the regional environment. Development and insertion into the international economy are like two faces of the same coin: they have value only together and if they are consistent with each other.

A strategic view of insertion into the international economy requires an analysis of the scenarios under which this participation will occur, a definition of the national interest, and certain conceptual issues, which are essential for decision-making in this regard, and equally essential are the effects of vicinity and the boundaries between ideologies and pragmatism.

## 1.1 Scenarios

Insertion into the international economy occurs simultaneously under three scenarios with different scopes, characteristics and norms, though interrelated and independent: the multilateral, the regional, and the bilateral scenarios.

### *1.1.1 Multilateral scenario*

The multilateral trade system administered by the WTO and its ensemble of commitments and disciplines is the broadest sphere of Uruguay's insertion into the international economy. Gatt's role, now assumed by the WTO, is not limited to the liberalization of international trade through negotiation rounds. WTO's disciplines form the universally accepted minimum normative structure that governs international trade relations. Moreover, WTO negotiations—currently being carried out in the Doha Round—will determine the future of world trade's general normative framework and will have direct implications for some issues of essential interest to Uruguay.

The WTO plays two basic roles. On the one hand, it is the forum where trade liberalization is negotiated by its members[2], which now include nearly all countries and customs regions that participate in international trade. On the other hand, it provides a system of norms and commitments aimed at establishing a regime of free, fair competition without distortions, a system consisting of Gatt 47's historic legacy and the results of the Uruguay Round, complemented by the dispute settlement mechanism that has been negotiated to guarantee universal compliance with these norms. This ensemble of norms, concessions, and commitments represent a minimum common threshold that endows international trade with certainty, predictability, transparence, and reliability—values that are pillars of the system.

Despite its contribution to freer trade and fair competition, the international trade system has a long way ahead to improve itself.

The advances in multilateral trade liberalization and the significant economic opening achieved in the nineties by the developing countries in general—and by Latin American countries in particular[3]—were accompanied by a policy trend in the major world players—particularly in the United States—toward a unilateral solution[4] of trade issues, through three types of action:

- Search for unilateral trade concessions from other countries.
- Abusive recourse to new forms of protectionism, such as voluntary restrictions, the application of internal legislation in respect of subsidies and dumping investigations, or market organization market. These new protectionism forms reflect resistance to submitting to the same parameters as the rest of the system, i.e., to WTO norms to determine violation of rights.
- The unilateral definition of "new" unfair practices with the intention of creating "new" rights and disciplines, under threat of the application of reprisal measures.

[2] Currently, 147 countries.

[3] In the mid-eighties, the average tariff practiced by the region on the basis of the NMF was approximately 50 percent. By the end of the Uruguay Round, it had dropped to 15 percent. The trade flow, affected by MNA, also dropped significantly and the subsidy policies were subjected to an intense dismantling process.

[4] Simultaneously with the Uruguay Round multilateral negotiation, the United States had frequent recourse to Section 301 and to antidumping actions as an instrument to obtain commitments to limit exports.

In addition, the main trade problems of developing countries remain unsolved—such as the lifting of restrictions and the elimination of agricultural trade subsidies—while in regulatory areas such as intellectual property, environmental protection, treatment of investments, or government procurement, discussions seldom reflect those interests. The Doha Round's main mandate was to look at the needs of developing countries but the prospects for its results are uncertain.

### *1.1.2 Regional scenario*

The traditional view of economic integration prevailing in the fifties and oriented toward the analysis of European integration was grounded on two concepts. On the one hand, the concept of "second best," as there was no possibility that all countries would simultaneously liberate their trade. On the other hand, the possibility of generating strong stimuli for creating and rechanneling trade among the countries in the process of integration, starting from high protection levels vis-à-vis third countries.

The establishment of the Latin American Free Trade Association-Lafta in 1960—for the purpose of creating a free trade zone pursuant to article XXIV of Gatt—reflected a strategy that combined the preservation of trade among the countries of the region, then threatened by instrumental changes, with the extension of the import substitution mechanism to the regional sphere as a form of overcoming the narrowness of domestic markets. Uruguay's participation in Lafta helped support an industrialization model based on protection vis-à-vis external competition and oriented toward end-products by light and intermediate industries. The failure in establishing the free trade zone called for by the 1960 Treaty was due to various factors, the main one of which was the impossibility of liberating—under a multilateral scheme—a substantial portion of reciprocal trade, given its structure, the expectations about supposed effects of liberation on national production, and the distribution of integration's costs and benefits.

The establishment of the Latin American Integration Association-Aladi in 1980 provided coverage for the proliferation of bilateral and multilateral agreements in the framework of weaker regional preference mechanisms and trade regulation.[5]

[5] Regional tariff preference, origin norms, and safeguard clauses.

Uruguay signed agreements of this type with the other countries of the region; with several changes, these agreements are still in force.[6]

Although a subregional integration component existed practically from the outset, witness the establishment of the Andean Group, it became stronger and integration's main thrust beginning with the negotiations that led to the establishment of Mercosur and to Mexico's participation in Nafta with Canada and the United States.

Under current conditions—multilaterally low tariffs and overlapping of preferences as a combined effect of the fact that nearly all countries participate in more than one preferential association scheme or engage in free trade with one or more than one group of countries—the direct effect of tariff preferences is limited and greater emphasis is laid on the institutionalization of market access conditions, so as to ensure more stable rules of the game for economic operators, and on exploring the opportunities offered by close neighbors. Mercosur is a clear example of the synergy produced when trade barriers are eliminated between neighbor countries, which, in addition, enjoy a strong historical relation.

The trade liberation programs under the agreements signed in the Aladi context have helped to improve conditions for reciprocal market access and have ensured that a substantial share of intraregional trade is already tariff free or that it will be so in the short run. Recently, the Mercosur and the Andean Community countries started a process of convergence between the two subregional blocs.

The negotiations aimed at the establishment of a hemispheric free trade area—the Ftaa—have stagnated after a lengthy process of preliminary discussions. In reaction, the United States have negotiated a free trade agreement with Chile and a free trade treaty with the Central American countries and the Dominican Republic, have concluded negotiations with Peru, and are close to concluding negotiations with Colombia and Ecuador.

Partly in reaction to the Ftaa, the South American countries have established a South American Community of Nations, one of whose aims is the establishment of a South American free trade zone.

[6] One decade later, Aladi's Partial Scope Agreements would be utilized to formalize subregional integration mechanisms, such as Mercosur.

After forty-five years,[7] Latin American integration is a process with the participation of a multiplicity of institutions, a different geographical coverage, and different objectives. Without ignoring the achievements related to various aspects of intraregional relations, none of the major integration movements have managed to reach its original objectives.[8] These frustrations have their origin in the voluntarism present at the time of setting objectives and programs; they become increasingly more marked owing to the tendency to compare Latin American with European integration.[9] Institutional pluralism, focus diversity, and changes of course that have characterized the integration process in Latin America have consistently reflected the possible direction to be taken.

Experience teaches us some lessons. In the first place, integration programs that extend over too long a period of time prove of little relevance or, in most cases, unsustainable. [10] Secondly, compliance with the "heavy" commitments pertaining to harmonization or coordination of instruments and policies has proven very difficult. CAN's and Mercosur's programs aimed at improving customs unions are typical but not unique.[11] Thirdly, advances and stagnation in the regional sphere are closely linked to the status of negotiations and multilateral agreements and to the trends in the international economy.[12]

If we leave rhetoric aside, it would be very difficult to find true examples of solidarity among the countries of the region, such as the case of one country

[7] We take as a starting point the 1960 Treaty of Montevideo and the first Central American economic integration treaty.
[8] This fragmented, dispersible process is representative of the reality and diversity of the countries of the region, the plurality of development strategies, and the changes that occurred in the region and in the international context into which the countries must integrate themselves.
[9] Latin America's situation and integration advances cannot be compared with the process that led to the creation of the European Union. European integration cannot be explained apart from World War II, the Marshall Plan, and the strategic value Europe did have for the United States during the first stage of the Cold War. The customs union theory itself was initially developed to assess and define the foundations for the establishment of a common market in Europe. The historical, political, and economic underpinnings that gave support to the establishment of the European Union have no parallel in Latin America.
[10] The establishment of a Latin American free trade zone-Lafta, the Andean Group's successive changes, and Mercosur's decisions' timetable serve as an illustration.
[11] As of 1964-965, Lafta engaged in an ambitious instrument coordination and harmonization program that was also adopted by the Andean Group and, in some aspects, was continued under Aladi. However, at the time of making decisions that implied a commitment on the part of member countries to change their norms, most projects stagnated, or the decisions made by regional bodies failed to be put into practice.
[12] The obligations assumed by the countries of the region before Gatt, the Customs Cooperation Council, and then before the WTO and under OMA exerted pressure for the adoption of measures aimed at the harmonization and modernization of foreign trade instruments in the region. The advances and stagnation in multilateral negotiations affected trade negotiations both within the region and in relation to third countries.

postponing its national interests so as to meet the needs of other countries or of the processes in which it participates. As a matter of fact, initiatives now under way stem from moves on the part of some countries for specific political ends.[13]

### *1.1.3 Bilateral scenario*

The multilateral system leaves enough room for both bilateral and plurilateral negotiation. In our region, Chile and Mexico have signed free trade agreements with the United States, the European Union, and other countries outside our region. Mercosur and CAN are considering going the same way, although facing more difficulties, in part because this is a joint negotiation that implies the need to define objectives and instrumental issues within the blocs, and in part because of the content and current status of trade and economic relations.

Joint negotiation by the integration blocs is the expression of their role as a platform from which they can insert themselves into the global economy and the tool that would permit the countries involved to complement and potentiate their position in the world in every respect.

In the case of ties to neighbor countries, though, we must make it clear that Mercosur does not encompass all aspects of neighbor relations. To a greater or lesser degree, there will always be room within or outside Mercosur for bilateral relations and negotiations between Argentina and Brazil, without Mercosur's participation. Multilateral relations among the four countries materialize partly in and support bilateral arrangements, which are possible only between two given countries.

## 1.2. Conceptual aspects

Under this heading, we look at three issues that provide a basis for the formulation of a strategy for insertion into the world economy strategy: the Uruguayan economy's neighbor condition and vulnerability; the incidence of ideologies; and the identification of the national interest.

[13] The South American Community of Nations results from the endorsement of Brazil's leadership on the continent, which, from a Latin American standpoint, clashes with Mexico's presence. Venezuela's approximation to Mercosur and the acts of generosity by some of our countries are due to the need to avoid isolation in the confrontation with the United States. Within Mercosur itself, the establishment of Focem aims at neutralizing the smaller countries' demand that asymmetries be addressed.

### *1.2.1 Neighbor condition, asymmetry, and vulnerability*

In Uruguay's case, geographical, historical, cultural, and economic ties to Argentina and Brazil have always had a strong impact on the country's social, economic, and political development. The condition of neighbor has been a source of opportunities but also of risks. The macroeconomic seesawing movements and the expansion and recession cycles in the neighboring markets have exerted intense effects on Uruguayan production and market, including tourism. The impact of the 1998-2002 recession period and of Argentina's financial collapse in late 2001 caused the most serious economic crisis in Uruguayan history.

The major problem for Uruguay stems from the abrupt changes in macroeconomic management and in the sectoral strategies in neighbor countries. In addition to creating turbulence in the trade in goods and services, these changes are a negative element for investments geared to the subregional market, because despite free access to this market, export possibilities can be subject to significant variation.

Uruguay's neighbor relations are markedly asymmetrical. It is not only a question of the size of its neighbor countries but of the great difference in the effects of events or economic measures on either side. Whereas what happens in Uruguay cannot affect the Argentine and the Brazilian economies in any way, what happens in these two countries has immediate, significant effects on the Uruguayan economy. With respect to trade in goods, Uruguayan total exports to Mercosur vary from around 50 percent—47 percent in 1995; 48 percent in 1996; 50 percent in 1997; 50 percent in 1997; and 55 percent in 1998—and their composition is quite different from exports to the rest of the world.[14] Between 1999 and 2002, exports to Mercosur countries suffered a substantial decline both in absolute and in relative terms, while recovery in 2004 and 2005 put them at 26 percent and 24 percent, respectively. During this same period, imports from Mercosur countries experienced a much lesser decline and accounted for a share of total imports similar to that of 1995, when it was 46 percent. In other aspects of the economy, such as tourism, the financial system, or the real estate market, Argentina's situation and the price relation between our two countries have decisive effects.

[14] Certain Uruguayan products are exported only to neighbor countries. When these exports drop, it is very difficult to find alternative markets.

Moreover, certain projects that are a priority for our country depend on the active participation of our neighbor countries. The promotion of Uruguay as a logistic platform for the Southern Cone's transport and trade is probably the most outstanding but not the only case.

For Uruguay, Mercosur meant the possibility of conducting neighbor relations within a more stable, predictable, and manageable political and operational context. Although this would not be a full solution to the vulnerability of the Uruguayan economy, it would at least condition the governments' behavior and permit a better prediction and control of the effects of economic events. Nevertheless, Mercosur cannot play this role without the effective harmonization of macroeconomic management, strict compliance with the commitments to market access, a more thorough harmonization of the different elements that govern or affect the functioning of the markets, and achievement of an agreement on norms pertaining to investment.

The great challenge is how to regulate a markedly asymmetrical relation with unstable neighbors,[15] so as to garner benefits and administer risks. The first step in this connection is to clearly see what we can expect from our neighbor condition and from the other markets and to formulate a strategy for insertion into the world economy that does not relegate the latter to a residual role in relation to Mercosur.

### *1.2.2 The ideological issue*

Ideologies normally play a role in decisions as to what is good and what is bad, what should or should not be done. The negation of ideology and the exaltation of pragmatism is in itself an expression of ideology.

The formulation of a strategy and specific decisions pertaining to insertion into the world economy should be based on an equilibrium between the promotion and defense of national interests and the principles and values prevailing in society: not everything that may be useful to national interests is acceptable to society and not everything that is desirable in terms of principles and values is compatible with the national interests.

[15] Instability and its effects on the Uruguayan economy have been much greater in the case of Argentina. The Brazilian economy's behavior and its expansion and recession periods have had less traumatic effects, although they too have significantly affected the Uruguayan economy.

A comprehensive approach to insertion into the world economy that addresses the ensemble of political, social, and economic aspects should establish the compatibility between national interests and political ideologies. In this connection, two aspects deserve pointing out.

First, as President Vázquez has said, Uruguay has only friendly countries. This an important statement because it means setting limits to the influence of political considerations or preferences on State affairs and accepting the consequences of the end of the Cold War and the changes in terms of global conflicts.

Secondly, recent discussions reflect a view of regional economic integration and the intensification of extra-regional economic relations, particularly in the case of the great economic powers as opposite choices. This dichotomy reflects, in part, the repudiation of global capitalism on the part of some sectors and, in part, the concept of regional integration as an instrument of solidarity and defense vis-à-vis the threats and inequities of the action of the world economic powers. Unfortunately, this way of thinking does not take into consideration the effect of the opening of the economies of the region on the role and mechanisms of regional integration. As regards economic and trade aspects, integration has ceased to be an option of development based on a broadened, protected market to become a platform for modernizing the economies and strengthening competitiveness so as to enhance the possibilities of insertion in the global economy.[16] In Latin America, the modern "open regionalism" concept has replace, in theory and in practice, the approach to integration as an import substitution instrument, typical of a predominantly protectionist scenario.

We cannot continue to look at the events of the 21st century through lenses appropriate to the mid-20th century. Political approaches must be updated, on both the national and the international planes. For the sake of national development, we must replace the concepts of "good guys" and "bad guys" with those of "partners" and "competitors." The sustained growth of employment, income, and resources for the implementation of social policies is the measure of the new sovereignty.

[16] In Mercosur's case, notwithstanding the difficulties encountered in joint negotiations with the European Union and the United States, relations with third countries have been one of the main components of the integration process.

For Uruguay, integration, on both the regional and the subregional planes, should continue to be an aspiration and an instrument of insertion into the world economy. But we must realistically and precisely look at what we can expect from the countries of the region and from their different groupings from the standpoint of our priority national interests. The role we assign regional integration in our strategy for insertion into the world economy should be the result of an assessment of the possibilities it has of contribute to our national interests and not of any ideological posture.

### *1.2.3 The national interest*

The strategies for both development and insertion into the world economy should be grounded on a clear definition and interpretation of our national interests. These should determine our strategic objectives and priorities, without disregarding the mainstay of our foreign policy: principles and realism.

Today these interests are clearly defined: higher employment, income distribution, poverty alleviation, and the reversal of social disintegration on sustainable terms. These are the most pressing needs, which must be addressed by the strategies for development and insertion into the world economy. Poverty and social exclusion are the major obstacles to liberty and sovereignty as well as a vulnerability factor, more important than neighbor concerns and economic structure. There is liberty only when the members of a society are able to meet their basic needs without restriction and have equal opportunities; and the only sovereign nations are those that can ensure the welfare of its subjects.[17]

Economic and investment growth is the real source of employment and income, as well as of resources to finance social programs. The modernization of the productive structure, the continuous improvement of productivity and competitiveness, and the quality of human resources are the contributing factors of sustainability.

This approach highlights the importance of insertion into the world economy and of public policies related to income distribution, employment, education, and promotion of productivity and competitiveness.

[17] The term "welfare" is used in the sense of a proper distribution of goods and services available to society, which does not necessarily mean wealth or ease.

A macroeconomic management conducive to stability and equilibrium is a necessary, although not a sufficient condition. It must be accompanied by an incentives policy to direct growth toward activities likely to contribute to productive structure changes, job generation, and income distribution, while ensuring a balance between the benefits and costs for society. It must also be accompanied by an external negotiation strategy capable of improving the conditions of market access for our national production, attracting investments, and making possible the access to technology and development financing.

In the medium and long run, education, advances in the knowledge economy, the pursuit of dynamic comparative advantages, attention to the obstacles to competitiveness and productivity that depend on changes in the organization of the public sector and in public management are the policy areas that should help narrow the productivity gap that separates us from developed countries in sectors that do not substantially depend on national resources.

Accordingly, the national strategy for a county's insertion into the world economy should be conceived and implemented in function of objectives that are consistent with national interests and so that it would provide the instruments to serve these objectives.[18] This is why we should ask and answer some key questions: What is the current view of regional (South American) integration and what is the role it plays in Uruguay's strategic and economic policies? What is the role of the neighbor condition in our insertion into the world economy and what is Mercosur's role as an instrument for deepening and regulating these relations? Which kind of Mercosur is good for us, and which can we have? Should we continue to consider trade and economic relations with third countries as a component strategically dependent on our membership in Mercosur—or is the possibility of relations with third countries a condition for participating in Mercosur? Should we indulge the luxury of not exploiting every opportunity offered by the United States market because of our disagreement with the U.S. foreign policy and with some relevant aspects of the U.S. trade policy?

To answer these questions we must have clearly in mind the requirements a strategy for insertion into the world economy must meet to

[18] At times, instruments become objectives. A value is sometimes ascribed to Mercosur in itself, independently from national interests, as if association with neighbor countries were more important than addressing employment, income, and poverty problems.

satisfy a "productive country"—i.e., the country's national interests on the economic plane.[19]

As we understand it, the "productive country" concept refers to an economy in which the production and marketing of goods and services generates growth, employment, and income. Financial operations are an additional service that should support the production of goods and of services, and the State should stop being a heavy burden on private activity. It is in light of this concept that policies should be formulated and positions adopted for advancing insertion into the world economy in respect of global, regional, and national issues.

First, trade and investment should lead to gradual changes in the production structure that would have a bearing on the job demand and reduce the current vulnerability. The way to achieve this objective lies in the development of dynamic comparative advantages, trade diversification, and incorporation of technology and knowledge into production and marketing.

Secondly, trade integration and a broadened regional market can contribute to the improvement of productivity and competitiveness as well as to the exploitation of dynamic comparative advantages, in so far as they facilitate the region's active, efficient insertion into the global economy. Regional integration should improve the conditions of participation in the global economy instead of raising obstacles to it.

Thirdly, the establishment of a broadened market and stable conditions of access to this market are essential for attracting investments that attach priority to market size and security.

Fourthly, certain strategic projects for Uruguay's development can be implemented only in association with neighbor countries. The development of logistic services connected with trade and transport depend on the availability and improvement of the physical infrastructure in the Southern Cone and on negotiations that can be carried out solely with Mercosur countries, Bolivia, and Chile. For the success of an appropriate strategy for insertion into the world economy it is essential to be clear about which projects are intrinsically dependent

[19] We are talking about the link between the insertion into the world economy contents—trade, services, investment, and financing and the spheres in which these are provided with the requisite instruments—and the growth, employment, income, and sustainability objectives.

on the neighbor condition, which can be addressed independently from it, and which can be a contributing factor.

Lastly, the strategy's sustainability and the management of vulnerability are also key requirements. Voluntarism and lack of foresight are the main sources of frustration and crisis for the countries of the region.

For a "productive" Uruguay, Mercosur should ensure the following:

- A consistent, credible broadening of the market, capable of neutralizing current limitations to attracting investment;
- A scenario that facilitates production specialization, the establishment of regional production chains, and the strengthening of entrepreneurial management; and
- A dynamic platform for the adoption of joint stances on the multilateral scene and for negotiation with third countries in accordance with the open regionalism concept.

The contribution of the external environment to job generation and income distribution and the creation and maintenance of conditions for sustainable national social and economic development, while respecting the values deemed fundamental by our society, set a limit to ideologizing and pragmatism in the definition of a strategy for insertion into the world economy.[20]

## 2. Integration: projection and content

Integration should always be seen as a political phenomenon that can prosper only to the extent that there are shared, converging interests among the countries involved and that divergences are assimilated as shared dissatisfaction. It is sustainable only as long as it is perceived by societies as an effective instrument for meeting their needs and expectations.

The establishment of customs unions or free trade zones has obvious economic and social repercussions in the countries involved and implies subjecting to collective management the decisions about foreign trade regulation and trade negotiations with third countries. Integration and cooperation in other areas also

[20] Extreme ideologizing can perpetuate underdevelopment and poverty. Extreme pragmatism can clash with political and ethical values deemed essential by our society.

presuppose joint resources, decisions, and management. Unless it is grounded on compatible interests and society's support, political will deteriorates into mere voluntarism.

In Uruguay's case, regional economic integration as a development option must take into account two elements. First, trade integration and free trade within the region are insufficient as an answer to the needs of the countries with respect to employment, income distribution, and social and institutional stability, as well as to the objective of narrowing the productivity gap vis-à-vis the developed world.[21] Secondly, Latin American integration should be an instrument for achieving better conditions of insertion into the global economy. We must integrate to compete and not to protect ourselves from the rest of the world.[22] In the mid-20th century, economic integration was conceived as a "second best" in view of the impossibility of promoting the full liberalization of international trade. This provided the foundation for articles XXIV and XXI of Gatt and was a central element in the customs union theory. In Latin America, economic integration emerged as an answer to the changes in the international economy and to the exhaustion, in most countries, of the import substitution policy owing to the narrowness of the markets. In a world dominated by protectionism, regional preferences and integration programs led to a significant growth of intraregional trade and to the diversification and strengthening of economic links among the countries of the region.

Nevertheless, the progressive liberalization scenario that prevailed as of the mid-eighties reduced the effects of preferences and brought into the fore the need to connect the regional integration schemes with the multilateral system and to adopt negotiations with third countries as one of the key instruments of those schemes.[23] Mercosur was born in this period.

[21] The region's active, effective insertion into the global economy requires addressing the various determinant factors of competitiveness and of creation, development, and exploitation of dynamic comparative advantages. The integration effort must encompass changes in the countries' productive structure through incorporation of the knowledge economy, development of the supply of competitive goods and services, improvement of the physical infrastructure and basic services, promotion of investment and quality employment, and strengthening of entrepreneurial management.

[22] The practice of open regionalism would strengthen the promotion and defense of regional interests in the multilateral system and effective joint negotiation with third countries and groups of countries. It would also boost the dynamic comparative advantages of the region and project it into the global economy.

[23] As a result of this change, the establishment of customs unions, which had been postponed (Mcca, Andean Group) gained a new impetus.

Both for Mercosur and for the other economic integration movements, the strategic updating of their role should rest on three pillars:

- A comprehensive approach to the regional market, which should address issues pertaining to the competitive development of the production and marketing of goods and services and to the acquisition of dynamic comparative advantages;[24]
- A search for better conditions of insertion of the region and its countries into the global economy; and
- Effective treatment of the asymmetries among the countries being integrated.[25]

Up to 1998, Mercosur experienced a highly significant increase in trade among its State Parties. This growth was due to market opening, exchange alignment, capital flows associated with the dynamism of the domestic markets, and the privatization of basic services. However, there were already signs of problems in that expansive environment. On the one hand, the State Parties had to adapt and adjust the perhaps too optimistic timetables of programs that were critical for improving the customs union and the common market, but without changing the objectives and the official view of the process. On the other hand, although the performance of trade within the bloc was auspicious, the same did not happen outwardly. The very reasons that fueled the dynamism of the internal market limited the conditions for competing on the international market.

By the end of 1998, though, a prolonged recession of variable intensity in the regional markets caused a drop in trade, amidst social, political, and economic conflicts of unprecedented intensity in our countries.

Today Mercosur is a stagnated process plagued by numerous cases of noncompliance and by incipient differences among members about its very

[24] Mutual cooperation in support of national efforts in areas such as the improvement of productivity and entrepreneurial management, the incorporation of knowledge into production and marketing, attracting investment, financing, support for the establishment of production chains among enterprises of different countries, land development and promotion of neighborhood trade, technological updating, improvement of physical infrastructure and basic services—all this will have a relevant role in taking advantage of the opportunities offered by regional trade and in channeling regional production to the global market.
[25] The effects of asymmetries have been one of the main causes of the failure and stagnation of integration schemes.

essence. The credibility of economic operators and social agents has declined and there is a risk of stabilization at a level lower than five years ago and far removed from the expectations embodied in the Treaty of Asuncion. Negotiations with third countries show Argentina's and Brazil's unwillingness to open their markets. What is most serious is the difficulty the State Parties have in defining—explicitly and on the basis of their real capacity to commit themselves—the objectives and goals of the process and to address, with common sense and an association spirit, the various issues related to free market access and to attracting investment.

The causes are numerous and go beyond the recession that has affected the region in recent years, but three of them should be born in mind in the search for solutions.

First, the States Parties have experienced profound political, economic, and social changes, with structural repercussions caused by the 1999-2002 crisis. Protectionist tendencies have reemerged, sectoral sensitivity increased, and attention to social problems, seen from a short-term perspective, has become a high priority for all partners. The composition and destination of trade flows have changed.[26] All these elements are reflected in trade policies and in the efforts to attract investment.

Secondly, the economic asymmetries and the imbalance in trade results—two concepts not contemplated in the Treaty of Asuncion—have become the central topic of discussion among the partners. Mercosur is characterized by a congenital, irreversible imbalance in an integration process in which one of the members concentrate about 70 percent of regional GDP, of the regional market, and of the bloc's external flows.[27] One effect of this characteristic is that everything that Brazil does has a decisive impact on the bloc's functioning and at the same time lays a heavy responsibility on Brazil for directing and sustaining the course of the integration process in its economic aspects. As a matter of fact, three different situations coexist with respect to asymmetries: the economic and political differences (in reality, differences not only between pairs of countries

[26] Intra-Mercosur trade has declined in both absolute and relative terms and the sale of farm commodities and agroindustrial goods, in different degrees in the different countries, is becoming the main export base.
[27] To this it should be added that both in Brazil and in Argentina there are notorious regional differences, with states or provinces in deep social and economic dearth. Some attempts to address these regional differences have contributed to the imbalance in both trade and investment flows.

but among all four countries); regional differences within one country, which affect all four countries (including Uruguay); and the effects of national policies or measures, particularly those adopted by Argentina and Brazil, which accentuate the uneven levels among countries, as is, for instance, the case of investment incentives or different treatment of free zones.

Thirdly, the States Parties' different approaches to Mercosur's role in accordance with their national interests are reflected in the way they view bilateral matters as well as in their common trade policy.[28]

The adhesion of Venezuela misdirects efforts and runs the risk of politicizing communal external management. In other words, it shapes Mercosur's external relations according to a confrontational model, impelling it away from the traditional Brazilian concept based on a developmental nationalism with a definite trade tendency.

In light of the preceding general observations, Mercosur so far has not become the instrument that would warrant focusing on the needs of a "productive" Uruguay and justify itself as the channel for our country's insertion into the world economy.

As regards trade in goods, the recession and crisis experienced by the Mercosur economies caused a collapse of Uruguay's exports to Argentina and Brazil and a contraction of its exports to Mercosur, which dropped from 1.533 billion dollars in 1998, when they accounted for 55 percent of total exports, to 624 million dollars in 2003, or 31 percent of total exports. The recovery of exports thereafter was based on the markets of third countries, particularly the United States. In 2004, exports to Mercosur totaled 764 million dollars. This performance contrasts with the increase in exports to third countries, which

[28] Mercosur had its origin in the projects aimed at strengthening the bilateral integration of Argentina and Brazil. Argentina is paying special attention to its trade relations with Brazil. Because of this, trade imbalances and Brazilian exports in some sectors have become a significant problem and are being dealt with by the two countries, without the participation of the other partners. For Brazil, Mercosur has become an instrument of its foreign policy, particularly to assert its position as a regional power, to win a significant place in the international context, and to achieve its objectives with respect to the liberalization of the trade in farm and industrial goods and to intellectual property. The difficulties in the negotiations with the United States and the European Union, redundant regional initiatives such as the establishment of the South American Community of Nations, can be partly explained by Brazil's foreign policy. Uruguay, on the other hand, keeps up its expectation that Mercosur will ensure free access to the regional market, encourage investment, and provide a platform from which to project itself into the international market.

climbed to 1.147 billion dollars. Imports from Mercosur, on the other hand, have not substantially changed and Mercosur remains as Uruguay's major supplier.[29]

The aforementioned situation led to macroeconomic imbalances and recession in the Argentine and Brazilian markets as well as in Uruguay's market. Other factors were the protection and financial measures adopted by Argentina and Brazil and the application of export tariffs by Argentina, in disregard for the principle of free movement of goods under the Treaty of Asuncion. In 2002, Argentina began to implement a policy that includes special incentives to investment; taxation of exports aimed at depressing the price of certain products on the domestic market and at lowering the price of industrial inputs; and adoption of a series of measures to protect industrial sectors. The recent agreement between Argentina and Brazil to introduce safeguard clauses into Mercosur—under the label of "competitive adequateness clause"—moves farther away the establishment of an actual customs union and thereby Uruguay's expectations of counting on a broadened market with stable, secure access conditions.

With respect to investments, the lack of secure conditions of market access and harmonization of incentive systems has caused most investments in goods production to be channeled to Brazil. When investors choose Uruguay, as is the case of cellulose plants, the neighbors' attitude is to attempt to block them so as to force a benefits distribution, thereby violating clear norms of international coexistence and explicit commitments under agreements in force. We cannot have great expectations in this regard either, unless Argentina and Brazil substantially change their attitude.

The consistent postponement of commitments about macroeconomic coordination moves farther away the possibility that Mercosur will help overcome our vulnerability, and sustains the risks stemming from any macroeconomic measures and events in the neighbor countries.

As regards joint negotiations with third countries, despite the time already elapsed, no results have been achieved (EU, Ftaa) or those achieved are quite

[29] In 1995, Uruguay imported 1.321 billion dollars from Mercosur, which amounted to 46 percent of total imports; in 2004, it imported 1.384 billion dollars, or 44 percent of total imports.

meager (India). While the other countries of Latin America have signed or are about to sign trade and economic agreements with the EU, the United States, and other developed or developing countries, the Mercosur countries remain isolated. This situation is the outcome of the trade strategy followed by Brazil, now coupled with Argentina's new protectionist orientation, and of the attempt to solve under bilateral agreements the most complex issues under negotiation in the multilateral sphere. Uruguay's interests in this matter are different and more specific than those of its neighbors, and the lack of agreements with major trade partners increases the vulnerability of our exports.

So far the asymmetries have not been addressed at all. The recent establishment of the Structural Convergence Fund has the merit of being the first explicit and practical acknowledgement of the need to deal with the effects of the asymmetries, but cannot be considered a solution. A real treatment of the asymmetries requires agreement on a definite, stable Mercosur profile, as yet nonexistent.

On the other hand, Uruguay has had to face Argentina's and Brazil's dual criteria with respect to the requirement of compliance with the commitments agreed in Mercosur's bodies. The clearest, most recent case is the invoking of Decision 32/2000 about the implementation of the common trade policy and the "informal" authorization for Uruguay to negotiate a trade agreement with the United States. This attitude disregards the fact that that decision forms part of a set of decisions approved in mid-2000 under the label "Mercosur's relaunching ," which included issues such secure access to markets, the adoption of a common customs code, the Common External Tariff-CET's improvement, incentives to investment, and coordination of macroeconomic management. There has been no compliance with any of these commitments or they have all been postponed. The set of decisions about the "relaunching of Mercosur" should indeed be revised in accordance with the partners' compliance capacity, while maintaining the issues' logical interconnections. It is not reasonable to require joint negotiations with third countries when internal issues directly associated with such negotiations have not been resolved, such as secure access to markets, CET's integrity, or the incentives systems.

Furthermore, in recent years Argentina and Brazil have carried out bilateral negotiations in the context of Mercosur, forgoing the participation of Paraguay and Uruguay in the drafting of such important decisions as the introduction of the so-called competitive adequateness clause. This tendency, coupled with the results already pointed out and the deterioration of bilateral relations with Argentina, may give rise to a negative, pessimistic perception of the future of our participation in Mercosur and of our neighbor relations. One must shirk these situational pressures to be able to approach insertion into the world economy and participation in Mercosur on the basis of the most enduring national interests and of the possibility of restoring the association ties within Mercosur.

Withdrawal from Mercosur is not an option for Uruguay. Uruguay must promote solutions for current situations pertaining to trade and investment in the context of a Mercosur that is effective and credible, and at the same time seek alternatives for overcoming the limitations caused by today's protracted indefiniteness and uncertainties.

### 2.1 Economic and trade aspects

The maintenance of the objectives and commitments, such as the establishment of a customs union and the decisions about "relaunching Mercosur"—unless they are grounded on the partners' earnest commitment to abide by them—only perpetuates the indefiniteness and uncertainty that characterize the current situation. Leaving that behind and seeking a model consistent with the countries' current interests and their real commitment capacity—a model with balanced components—would inject realism into the expectations and provide clear rules for operators. In addition, this alternative is consistent with the possibility of resuming more ambitious integration objectives in the future.

With respect to trade issues, it is necessary to devise a scheme that would ensure conditions for regional market access, define the scope of the national treatment, and clearly identify the trade regulation matters to be covered by harmonization, coordination, and cooperation programs. Exporting o the regional market should be a secure, predictable process and not guesswork or a hurdle race. If, however, safeguard mechanisms such as the competitive adequateness clause should be adopted or the application of practices that restrict or distort competitiveness by the governments should persist, the partners should be able to resort to compensation as regards both imports and exports. These types of flexibility are not desirable but should not be discarded. They should at least be subject to agreement and not the result of the acceptance of a fait accompli, and should allow the partners to use measures to correct market distortions whenever possible.[30]

The establishment of the customs union will regain validity as an objective provided a credible program for its improvement is agreed upon. This presupposes decisions pertaining to the elimination of multiple collection of the CET, exceptions to the CET, the free movement of goods, the harmonization or adoption of common norms for trade regulation, and the implementation of a common trade policy. The flexibility of commitments about market access and the free movement of goods would be consistent with the continuation of the process for establishing a customs union only if this flexibility is transitory and agreed by the countries and not the result of unilateral decisions.

The ensemble of commitments associated with the establishment of a customs union should be consistent, particularly during a new transition period. The conditions of access to a broadened market, the application of the CET, the regulation of trade, and the implementation of a common trade policy should be in perfect harmony and should be obligatory for all. As pointed out in relation to the commitments undertaken at the "relaunching of Mercosur" in 2000, it is not logical to require compliance from some members while tolerating noncompliance by others.

The sectoral or investment incentive systems should be the result of agreements aimed at a greater balance in the direct foreign investment flows to compensate the different capacity of countries to attract investment, particularly in view of their market's size. This criterion is valid for the establishment of the customs union but also for other subregional market structuring options.

The secure functioning of the subregional market depends on the establishment of mechanisms and instances conducive to a systematic coordination of macroeconomic management (including monetary, exchange, financial, and fiscal policies), the adoption of measures for balancing the conditions for attracting investment, and a review of sectoral and national

[30] An example: when Argentina introduces export taxes, it is failing to comply with the Treaty of Asuncion's disposition about the free movement of goods and at the same time it is encouraging Argentine exporters who use inputs that are subject to export taxes and depressing the prices of the Argentine market for exporters of the other countries. This lack of compliance would legitimize the application of compensatory duties on Argentine imports that enjoy export taxes benefit and of compensation for exporters to the Argentine market that are affected by the depressed prices.

development policies. The extent and depth of the commitments pertaining to these matters should match the extent and depth of the commitments pertaining to the subregional market's operation.

The treatment of asymmetries and the evaluation and possible adjustment of the results of the States Parties' participation in the integration process are part of the search for mechanisms and opportunities to ensure that benefits are reaped by all.[31] The issue is not limited to Paraguay and Uruguay. There is also a significant asymmetry between Argentina and Brazil that is definitely the main cause of Mercosur's stagnation. Mercosur's Structural Convergence Fund has the merit of being the first practical expression of acceptance of asymmetries within Mercosur but is clearly insufficient. Other measures should be considered, such as compensatory mechanisms for situational or structural imbalances, whether internal (States Parties) or external; support for production reconversion; borderland development programs; authorization for bilateral negotiation with third countries that does not harm joint negotiations; and flexibility of positions regarding certain special regimes (as is the case, in Uruguay, of temporary admission and free zones).

Lastly, it would be convenient to include the systematic treatment of issues that transcend Mercosur's geographical area, such as energy integration, physical structure integration, and cooperation in the area of knowledge economy, thereby moving Mercosur beyond a narrow trade front, but without neglecting a general projection.

### 2.2 Legal and institutional aspects

Mercosur institutions have a major role in ensuring the success of the efforts aimed at directing and imparting dynamism to the integration process. Its design and operation must be consistent with the trade model and the definitions adopted about coordination of macro and sectoral policies and projects related to physical structure, energy, and asymmetries.

In this connection, four aspects stand out.

[31] As regards Uruguay, the treatment of asymmetries should assimilate the experience of the Lafta and Aladi relatively less developed countries: they do not negotiate principles or status but practical solutions to real problems; they do not demand solidarity, but base themselves on common interests.

First, the establishment of expeditious procedures for incorporating the decisions of Mercosur bodies into national legislation. Currently, a large percentage of Mercosur countries' decisions entailing commitments for the States Parties are not put into practice. This results in legal uncertainty and in a sort of double veto, as to the rule requiring consensual decisions is added the possibility of postponing or blocking effective compliance.

Secondly, the participation of two federative States in Mercosur requires, according to their respective constitutional provisions, the involvement of provincial or state authorities, as well as departments and municipalities, in the commitments undertaken.

Thirdly, a more efficient, agile institutional structure should be established, capable of ensuring the continuity and transparence of the approach to the various issues, gradually incorporating elements of community management. At the process's current stage, decisions entailing obligations for the States Parties should continue to be intergovernmental, but Mercosur should be able to count on some organ responsible for promoting and defending the integration process's integrity and orientation as well as the interests of the member countries. The Secretariat should have greater operational capacity and technical autonomy.

The incorporation of community elements into the institutional organization does not imply supranationalism. At a time of indefiniteness and behaviors that deviate from the basic obligations assumed under the Treaty of Asuncion, the governments' control over the process is essential. But equally essential is a proper representation of the common interest, even when the corresponding organ lacks authority to impose decisions on the States Parties.

A Mercosur Permanent Representatives Council-Mprc should form part of the institutional structure as an organ with well-defined functions. It should be either a permanent intergovernmental body that ensures continuity in the treatment of the different issues and addresses emergency situations,[32] or an organ responsible for promoting and defending community interests before the national administrations and Mercosur's decision-making organs. Whatever the decision adopted, it is necessary to formalize its functions, the selection of its members, and its links to intergovernmental organs and the Secretariat.

[32] It should be something similar to Aladi's Representatives Committee.

Moreover, the recent establishment of the Mercosur Parliament must be digested by the organization. In practice, Mercosur ‘s structure would consist of four elements: an executive arm, consisting of the Common Market Group, the Common Market Council, and meetings of Heads of State; a Parliament representing the Sates Parties' political systems and structures; a mechanism endowed with its own institutional support for the settlement of disputes; and a technical and logistic support organ, which would be the Secretariat. The Mprc could form part of the executive body or be the depositary of community interests. Such a structure may not be ideal, but under the current indefiniteness circumstances it seems more reasonable to postpone its review until the countries have reached decisions about Mercosur's objectives and the mechanisms for achieving them.

In light of these observations, the Mercosur Parliament does not provide a solution to the current problems nor presents an obstacle to it. Its functions do not imply the introduction of supranationalism in Mercosur decisions and still less an appropriate answer to Mercosur's current problems. It does not arise as a natural outcome of the process's maturity but rather as a screen to disguise the existing inconsistencies at the heart of its functioning. In other words, the timeliness of this decision could be questioned, but once it has been made, discussion about the Mercosur Parliament would mean a distraction from more essential aspects that should be debated.

Lastly, one should consider the establishment of a definitive dispute settlement instrument that would offer security to both State Parties and individuals and serve as a dissuasion element in noncompliance cases. The protection of Mercosur citizens should not leave room for the States to negotiate their rights and obligations and to make them hostages to an exchange of tolerant and flexible concessions among governments.

On the legal and institutional planes it is necessary to ensure equilibrium in two aspects. First, there must be equilibrium between the scope and the exigency of the commitments undertaken by the States Parties. As has already been pointed out, a logical consistency is essential in the treatment of certain issues and commitments and attention has also been called to the interdependence of access to the subregional market, CET's integrity, the provision of instruments for a common trade policy, and the establishment of consultation mechanisms in reference to macroeconomic management. Secondly, there must also be equilibrium in the institutional organization, which should respect the assignment of functions to the different organs, so that these can effectively operate at each stage of the subregional integration process.

## 3. Insertion into the world economy: a comprehensive proposal

A comprehensive proposal for Uruguay's economic integration into the region and into the world must encompass all the aspects and spheres involved as well as providing both substantive and methodological solutions.

The presentation of the strategy by spheres of application should not make us lose sight of the coordination and interdependence of the actions defined for each sphere.

Participation in Mercosur will be at any rate a first magnitude element in Uruguay's development strategy and insertion. However, what may happen to Mercosur does not depend on our interest or will but on decisions by all partners, in which so far the interests and approaches of Brazil and Argentina have prevailed. Different alternatives for Mercosur's future will affect the extent and content of Uruguay's economic links outside the subregional context and on the role Mercosur may have as an axis of our insertion into the world economy.

The strategy rests on two pillars. On the one hand, it depends on growth based on investment and exports of goods and services and oriented toward higher employment, income distribution, and the availability of resources to support the programs aimed at combating poverty and exclusion. On the other hand, it depends on the sustainability of growth, which in turn depends on the continuous improvement of productivity and competitiveness, the adequateness of the goods and services productive structure, the strengthening of enterprises, education, and attention to the other vulnerability factors that affect Uruguay's economy. These two pillars embody Uruguay's substantive interests that must be included in all discussions about insertion into the world economy. Positions related to regional integration, Mercosur, participation in the WTO and in other multilateral economic forums, and economic negotiations with third countries or extra-regional blocs must give priority to our expectations related to exports of gods and services, investment, and reduction of our economy's vulnerability. Our disposition toward integration or our rejection of the foreign policy or trade practices of the major economic powers cannot serve as arguments that would lead us to perpetuate poverty and exclusion and to be stingy about resources for social policies.

### 3.1 Participation in Mercosur

For Uruguay, the regional sphere encompasses participation in Mercosur, in Aladi and in all other functional scenarios related to market and product diversification, within the framework of a definite strategy.

In respect of Mercosur, Uruguay is interested in the preservation of the integrity of an integration process that is political, economic, and social; the achievement of an agreement about its fundamental instruments; and the establishment of a starting platform that is consistent with the agreement and with the States Parties' commitment capacity, as well as with a balanced view of their interests. In other words, the future Mercosur should be defined so as to provide a framework for the solution of current situations and thereby establish an agreed starting point with respect to political, trade, and economic commitments, the solution of current conflicts, and the adequateness of the institutional structure. Not everything has to be immediately resolved but set on a credible solution path.

For Uruguay, the best Mercosur configuration, as already pointed out, would result from the recovery of the original objectives and expectations regarding the establishment of a customs union and a common market, which would be the best environment for improving competitiveness and the conditions for integration into the global economy, complemented by effective approaches to asymmetries. This would imply the following:

- A trade and economic scheme that is respected and credible—emphasis on these two attributes;
- Effective consultation mechanisms to address macroeconomic management;
- Commitments regarding incentives to investment that balance out the States Parties' possibilities of attracting investment;
- An effective trade policy that accepts the smaller partners' possibility of negotiating with third countries in the context of joint negotiations—in the form of advances and/or complementation—or of prior consultation with the other partners;

- Preservation—provided this does not go against essential elements of the common trade policy—of instruments aimed at attenuating asymmetries, such as temporary admission and free zone regimes, as well as other instruments that would permit our development as a regional center of logistic services for transport and trade;
- An institutional entity in which community and government are in equilibrium and which is in conformity with the commitments undertaken by the partners, as well as ensuring legal security through expeditious internalization procedures and effectiveness in the settlement of disputes.

This notwithstanding, our priority should be having the States Parties exonerate each other so that they may define a credible process with stable, respected rules, legal and political security, and balanced commitments. It is preferable to have a Mercosur with a lower profile than originally conceived, but which is consistent with the commitment capability of its member countries, and with the maintenance of its objectives and mechanisms, which are not supported by the actual position and conduct of the States Parties. The recovery or achievement of consensus about Mercosur's objectives and associated policies, whether they reaffirm or revise the essential initial decisions, is necessary, so that the solution of punctual conflictive situations may help strengthen the process or keep it from further deterioration. Today the lack or weakness of decisions in this direction, coupled with a series of specific cases of deviation from the trade-related commitments in force involving all States Parties to a greater or lesser extent, fuels doubts about the validity of Mercosur's instrumental and substantive objectives, with the attendant effects on the conduct of economic operators.

A similar scenario presupposes agreement on appropriate compensation for the existing asymmetries, including the asymmetry between Argentina and Brazil.

At a first stage, the States Parties should agree on solutions for the different situations affecting market access. These solutions might include transitory mechanisms to facilitate the restructuring of certain critical sectors, or to set a transition period for the solution of punctual difficulties in the process of establishing a customs union. What is important is that these cases be really exceptional and jointly administered by the States Parties, leaving aside the bilateralism observed today. This stage would be crucial for restoring the credibility of Mercosur and of the member countries' capacity to proceed with the subregional integration process.

The main constraint to setting Mercosur on course again is the change in the orientation of Argentina's economic policy since 2004. Brazil's positions and practices have not significantly changed since the early transition period and have not greatly affected conditions of market access. But the persistence of protectionism in technology-intensive industrial sectors and the intention of leading the positions of developing countries in the area of agricultural trade pose a major obstacle to the conclusion of trade agreements with third countries. On Argentina's side, though, difficulties are greater. Argentina is levying exports tax, adopting strong mechanisms of incentives to production, investment, and exports as well as some punctual measures that affect imports. It is also attempting to reverse the deindustrialization of the past decade, precisely in the sectors that concentrate the trade in industrial goods with Brazil. Uruguay applies some import restriction measures in response to those imposed by Argentina and to the need to assist certain sectors that were particularly affected by the 2002 crisis. We are definitely confronted with positions that reflect the different intensity and magnitude of the turn-of-the-century crisis in Mercosur countries and the asymmetries, particularly those between Brazil and Argentina.

Under these circumstances, an exoneration exercise and a redefinition of the integration process might include a "strategic withdrawal" to solve the most pressing situations and put Mercosur off to the medium and long run, putting it on a more solid basis, with equilibrium of interests among the States Parties. During this transition, it is necessary to observe consistency between the commitments and the objectives that may be established. In particular, the requirements of joint trade negotiations should be consistent with the commitments and compliance with them in respect of market access conditions, the functioning of the subregional market, CET's integrity, harmonization of trade policy instruments, and macroeconomic coordination. This aspect is particularly important for Uruguay. Equal consistency should be sought in respect of substantive commitments and their administration needs, institutional organization, and the scope of the dispute settlement system.

Such an exercise might or might not produce results and might maintain the indefiniteness scenario of the process's development, the recurrent negotiation of punctual noncompliance with market access commitments—which could be institutionalized through some kind of safeguard mechanism—, maintenance of the present conditions pertaining to investment incentives and possibly a conduct as a flexible bloc in multilateral negotiations and in negotiations with third countries.

Maintaining the status quo does not mean that Mercosur will disappear or become a mere nominal institution. But it will be necessary to find alternatives to meet its member countries' need of insertion into the world economy.

In any case, account should be taken of the fact that subregional projects are being proposed and considered in the areas of physical infrastructure development and energy integration in the Southern Cone (Mercosur + Bolivia + Chile + Peru) and Venezuela. Addressing these issues and greater participation of associated countries could "oxygenate" Mercosur and contribute toward new equilibriums. For Uruguay, physical infrastructure and energy integration are two priority areas. However, these initiatives do not cancel out the need to solve trade differences and charter the process's future. Latin America has a long experience of sidestepping in integration matters and its recurrence should be avoided.

We must also think about Venezuela's admission as a Mercosur member, which has already been formally applied for, and the likely admission of Bolivia as well. The objectives contemplated by this expansion of Mercosur are more political than economic, although the two countries' participation might significantly increase the possibility of arriving at an agreement on energy integration. The risks attached to their adhesion should be weighed. A politicization of Mercosur that might put it in confrontation with the great economic powers would make its negotiations with the European Union and the United States even more difficult, if not bring them to a halt. Moreover, negotiations aimed at incorporating new members would detract attention from the central issues that the current State Parties should attempt to solve.

Mercosur's development depends in large measure on the agreements Argentina and Brazil may arrive at with respect to their reciprocal economic relations. As a matter of fact, Mercosur was born from the agreements signed by these two countries in the late eighties with a view to broaden and deepen bilateral integration. In recent years, they have sought between themselves to find solutions for their differences and to define measures to be adopted in specific areas of integration, even though such solutions ought to be formalized by

Mercosur organs and might affect Paraguay and Uruguay as well. We cannot disregard the weight that the economic links and problems between Argentina and Brazil have on Mercosur's functioning or the fact that, under certain circumstances, problems between the two countries might be better resolved bilaterally. Be as it may, systematic bilateralism in internal negotiations erode the association ties and detracts from Mercosur's character as a joint project of four countries.

Every country can and should have the opportunity to contribute to the designing of the future scenario and to the solution of current or future situations. The bilateral approach may complement or expedite but never replace joint consideration of issues that are proper to Mercosur, Without disregarding Argentina's and Brazil's weight, Uruguay can and should play a role in the decisions aimed at defining Mercosur's future.

In an asymmetrical society, Uruguay and Paraguay have a relevant role in the legitimization of the direction imposed by the other partners. But when the larger partners have a different view about how the society should be conducted or do not have answers for crisis situations, the two countries' role is expanded for the search and proposal of formulas to restore lost equilibrium and preserve the meaning and strength of the ties that bind the partners together. For playing this role it is necessary to formulate proposals and devise approaches conducive to a resumption of Mercosur's political and economic dynamics. It is not a question of sweeping under the rug the conflictive situations troubling us but of creating an environment in which these or any other situations that affect relations among the partners may be harmoniously addressed and resolved, in light of the national and group reasons and strategies that have led to the establishment of Mercosur. We should extend the same earnest, legitimate zeal with which we seek to claim and safeguard our national interests to the preservation of our consensual relations as democratic neighbors, avoiding the adoption without consultation of measures that may serve legitimate national objectives but which interfere with the equally legitimate rights and interests of the other partners. We are not advocating supranationalism at this stage of the process but rather common responsibility. The great task facing us is to restore the responsibility of Mercosur's partners toward society and to practice a common approach discipline and ensure the transparence of national decisions liable to affect the whole. This will be possible when all partners look at Mercosur as an instrument for social and economic development, political equilibrium, and preservation of democracy in our region, as well as for enhancing its position as a bloc on the international scene.

Leaving Mercosur is not an option for Uruguay; neither was staying out of it when it was established. What should be discussed and defined is what kind of Mercosur is best for Uruguay, in light of the possibilities of negotiation that can be predicted today, and what is the role Mercosur can play in our strategy for insertion into the world economy.

Uruguay's trade and economic relations with the other members of Aladi have been traditionally weak, with the exception of relations with Chile and, more recently, with Mexico. However, these markets do provide an opportunity for diversification, both as regards trade in goods and services and attracting investments.

With respect to Chile and Mexico it is convenient to deepen the negotiation of market access conditions to overcome certain barriers, particularly in the area of sanitation and trade in services. They can also be a source of appropriate investments for making small and medium enterprises viable. Possibilities in relation to Colombia, Ecuador, and Peru are not so clear, but all diversification possibilities should be explored.

As regards the other regional organizations, Uruguay's importance for improving physical interconnection and energy integration should be taken into account. Active, constructive participation in these organizations is important for making the countries of the region aware of the Uruguayan economy's vulnerability problems.

### 3.2 Bilateral relations

Depending on the results achieved in redefining Mercosur, Uruguay has two basic options for defining its own strategy for insertion into the world economy.

One option would maintain regional integration through Mercosur as a platform for its insertion into the world economy, with flexibilization of the common trade policy and joint negotiation to seek links with third countries that might help reduce our economy's vulnerability and contribute to the sustainability of our national economic development. In this case, links with third countries would not be seen as a residual element of the strategy for insertion into the world economy but as a factor to redress asymmetrical relations in the region.

The other option would be associated with Mercosur's continuing stagnation and indefiniteness and would attempt to ensure the security and stability of economic ties, involving Mercosur, bilateral relations with neighbors, participation in the multilateral system, and trade and investment agreements with third countries.

Mercosur is not the only sphere for the management of relations with Argentina and Brazil. Relations with the two countries will continue to enjoy priority and privilege under any circumstances. Mercosur's shortcomings can be bypassed through bilateral negotiations.

It will be necessary to define and implement a new approach to trade policy so as to preserve an open market and to lay greater emphasis on the large markets of developing countries (China, India) with a an eye on attracting investments and technology, exporting services and knowledge, exporting agroindustrial goods, concessions on labor-intensive products[33], and development of production/marketing niches, all of which has led or may lead to trade and economic cooperation agreements.

Investment guarantee treaties, free trade treaties or even agreements limited to certain goods or punctual aspects are instruments we have utilized and of which we can make wider use for the duration of Mercosur's indefiniteness. There are no legal obstacles to trade negotiation with third countries. There is no logical basis for requiring a strict discipline in this regard as long as there is no effective program for establishing a customs union and as long as noncompliance persists in respect of market access and the CET.

Without prejudice to our participation in joint negotiations Mercosur may carry out, Uruguay should prepare and plan negotiations with third countries with a view to potentiate trade in relatively specific sectors or products indicated by our country's exporting possibilities. The instruments for exploiting these possibilities may vary, but it is necessary to bear in mind the provisions of article XXIV of Gatt.

[33] In 2004, under concessions granted by the United States through programs to combat drug trafficking, Peru exported over 700 million dollars in apparel to the United States, while Colombia exported about 400 million dollars. These exports had a great impact on employment and income in the two countries.

Uruguay should define its specific interests to be negotiated at least with the United States, Canada, the European Union, Japan, China, Korea, and Russia and do a systematic analysis of the possibilities offered by other markets.

Uruguay has advantages and disadvantages in these negotiations. On the one hand, the volume of our supply would not have a strong impact on most markets; this could facilitate the negotiation of better access conditions. On the other hand, though, the size of our economy limits the expectations of other countries and may discourage negotiation.

Uruguay's actions in this connection must be transparent and coordinated with Mercosur, while avoiding to hurt joint negotiations and using them to improve its negotiating capacity.

### 3.3 Participation in the multilateral system

Uruguay has little possibility of influencing the decisions of the WTO or other multilateral organizations. It can have no determinant weight in the definition of common positions Mercosur or other countries may adopt at these forums, either.

Nevertheless, active participation in the multilateral sphere and in the definition of Mercosur's positions is important for preventing the effects of decisions made at these forums on our trade and economy as well as for projecting our country's image.

## 4. Conclusions

1. Foreign policy should be based on the definition of a medium- and long-term strategy. Though important, the discussion of punctual aspects should not encourage decision-making counter to its the hard-core position.

2. Uruguay's insertion should be on three levels: multilateral, regional, and bilateral. The globalization process favors the discussion of vital issues in light of broader scenarios that for long were restricted to national policy.

3. The economic opening concept reflects an incontrovertible reality that may be managed, but there is no denying that it is the main instrument for raising the productivity of the national economies.

4. Integration and Mercosur are irreplaceable scenarios that arise from our economic reality and, essentially, from geopolitics. Nevertheless, our country should redefine its stance in accordance with the changes occurring inside and outside our region. Scenarios that are not inclusive are not advisable.

5. Insertion into the world economy at the multilateral level and, at the regional level, integration and Mercosur can be seen as political projects not to be confused with political ideology. For Uruguay, confrontation is not viable as a relationship style and runs counter its foreign policy. Principles and pragmatism can be compatible if managed according to a defined strategy.

6. Small economies can assume a protagonist role owing yo their capacity to advance proposals, not only in defense of their national interests but also in the conduct and analysis of the scenarios in which they participate. Their proposals should be heeded because of the foundation on which they rest and the professional earnestness with which they are formulated.

7. All the issues raised by Uruguay are related to a strategic project. Accordingly, an interministerial, interdisciplinary negotiating team should be set up, centered on its institutional management and with capacity for simultaneously addressing numerous scenarios. Without a strategic conducting wire and without technical support, it will lose its direction as well as respect and credibility inside and outside the country.

The State's Foreign Policy is also made of concessions by all the country's political forces. The lack of a clear message or the differences brought out into the public have no effect other than intensifying the country's vulnerability. DEP

Version: João Coelho

# “There is another world and it is in this one”

*José Vicente Rangel* *

Presentation of the report and rendering of accounts by the members of the Council of Ministers to the National Assembly. Caracas, march 2, 2006.

I have always endeavored to ensure that this is not a mere republican liturgical act and that, on the contrary, its substance should transcend empty formality, and that this obligation incumbent upon ministers and high-ranking State authorities under article 244 of the Constitution should not become an ineffectual ritual.

This act signifies the acknowledgement by one of the government branches—the Executive Branch, in this case—of the authority that embodies the people’s sovereignty, namely, the National Assembly. It signifies the acknowledgement of this body’s control and inspection authority over administrative and political management. Therein lies its importance and meaning.

Today, once again, the Executive Branch submits is management to the review of the people’s representative body. It does it democratically, without reservations, and in a transparent way, based on the fundamental principle of this body’s control over the functions of each of the government branches, as established by the 1999 Constitution and in accordance with the system of

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cooperation linking the different government bodies for the achievement of the State's general objectives. These are our guiding principles. This is what underlies the Bolivarian Constitution. This is the way it is under the actual Rule of Law, such as it exists in Venezuela.

In connection with this presentation of the Report and Rendering of Accounts by the members of the Council of Ministers, let us briefly look at the political and institutional process that started on January 23, 1958. The deception that this process represented for the people's hopes and for the very functioning of representative democracy became evident precisely as these kinds of event were examined.

Under the Fourth Republic there was a succession of eight constitutional periods dominated by two alternating parties under *puntofijismo*. During this long lapse of time the presentation of the Report and Rendering of Accounts to the Parliament by the ministers was a merely symbolic practice. The norm established by the 1961 Constitution was dead letter. Reports were never reviewed. They never elicited an institutional response or gave rise to an investigation for the purposes of approval or disapproval. The opposition at that time could accomplish nothing, except for hot testimonial debates, whose effects were curtailed with bureaucracy's complicity. Nothing could be done in view of the famous, overwhelming wave of raised hands directed from a distance by Miraflores and party heads.

And what about the submission of reports under the Fifth Republic? I have a record of participation in this kind of event as I have been Minister of Foreign Affairs and of Defense as well as Vice-President of the Republic under President Chávez. As such, I have considerable experience, coupled with a feeling of frustration. Each time I discharge a constitutional mandate, I stress importance of this and call upon the Legislature to undertake a responsible review of the ministerial reports as this is undoubtedly a prime opportunity to assess the quality and effectiveness of management in the different areas of public administration and to monitor the functioning of the Government and of the State.

Mr. President, Deputies, what I am about to say should be taken as a criticism of the Bolivarian representation at the National Assembly in the recent past. It is true that the Revolution parliamentarians have had to face difficult, complex situations, episodes in which the very existence of the democratic, constitutional order has been at stake, which obviously consumed time, energy, and resources.

Nevertheless, my view is that there is no valid excuse when ineludible commitments to the people and the revolutionary process are at issue. I do believe that self-criticism is healthy. At the outset of a particular stage such as the current one, all the more demanding because of the burden the people have laid upon your shoulders, at a time when the productivity and image of the Legislature depend solely on you, the commitment to duty becomes all the greater. This is the challenge before you at this crucial moment.

Now then, what has the opposition, significantly represented in the Fifth Republic Parliament, done with respect to the reports? Nothing! It did not even attend the presentation of reports as mandated by the Constitution. We should have been able to count on similarly represented *puntofijismo* opponents to review, with decision power, the ministerial reports of that time. But this did not happen. This was precluded by the condition of being a minority in a regimen that crushed dissidence. I have no personal regrets but deem it important to point out this contrast and to make a contribution to the Venezuelans’ historical memory.

These observations, of a strongly testimonial character, lead us to a reflection I consider important—a reflection about the concept of opposition and the opposition’s role in a democracy, which goes beyond mere representation.

Foreign visitors often show interest in learning about the Venezuelan opposition and I usually say that we have a serious problem with it, not because it is strong, active, and intelligent, but because it does not exist for the sake of the country’s democratic functioning. It does not exist for the sake of the Rule of Law or of the citizens, but for the sake of extra-constitutional adventure.

Opposition does not consist only in opposing a given government but also in helping to arrive at, civilized, reliable civic options. The Venezuelan opposition has done its best to disappear from the scene instead of democratically leading a major segment of public opinion. This is how it has changed from a situation when it had power to put entrepreneurs, priests, the military, governors, mayors, and deputies on the streets to what it is today—nothing, a chaos, a lethal abyss where it accumulates mistakes and inconsequent actions: April 11, the oil strike, the terrorist “Guarimba Plan,” Plaza Altamira.

Do you, María Cristina Iglesias, Aristóbulo Istúriz, Nicolás Maduro, recall the surrealist dialogue with opposition representatives around that table at the Meliá hotel, when they proposed a provocatively unconstitutional consultation referendum, for the sole purpose of bringing heat to bear on the streets in preparation for the oil strike? From the hotel they moved on to Plaza Altamira, as if nothing had happened, holding up the arms of military traitors, and instigating a coup d'état.

Does one not know the opposition's history in the election processes during the Fifth Republic and the immoral trick of the subsequent questioning based on false denunciations? Where are, for instance, the so often promised and publicized proofs of fraud in the August 2004 recall referendum? Why did not the opposition participate in the December 4 parliamentary elections? Was it because it did not trust the electoral system or because it was afraid to realize its size? The fact is that when this opposition wins the election, as was the case in the gubernatorial elections in Zulia and Nueva Esparta and in the mayoral elections of Chacao, Bruta, El Hatillo, Lecherias and various other Zulia locations, there is no fraud; but when the Bolivarians win in these same gubernatorial and mayoral elections, yes, then there is fraud. Is the electoral system being actually questioned, or is it a question of excuses used by an opposition that lacks votes and must hide its weakness by alleging that it does not know the electoral system? The answer is obvious.

My intent is not to give advice to the opposition but to talk about my experience as an opposition individual that has always been in a flagrant minority within the ranks—a loner, a target of frequent threats together with other companions who have persevered without weakening and without abdicating our principles.

My parliamentary friends, I have a logical question: What is the opposition's purpose? Answer: to devise alternatives, as did President Chávez, for instance. How did President Chávez wage opposition? Rising from below, with no resources, he built a following on the streets, brought together various segments of the population, patiently working, without precipitation and without provocation. This is a fact. We could cite many other examples from the history of our country and of the world.

When those who call themselves opposition are incapable of waging opposition, they lose their legitimacy. They are anything but opposition; and this is what is happening in our country now. The Government and the parties that back the revolutionary process hold meetings, workshops, dialogue; they hold discussions at the Miraflores Palace, at the Vice-President of the Republic's office, at the ministries, in the centers where civilians, parties, labor organizations, workers, and professionals hold civic meetings with various segments of society: entrepreneurs, the Fedecamaras that represent the largest businesses (elements who have broken the Land Law, for instance), and with the heavy weights of the economy; with agricultural producers, cattle raisers, estate owners, workers, students, university presidents, academic professionals; with the Catholic hierarchy, evangelical churches, and representatives of the Jewish community and of all the communities settled in our country. However, it is impossible to meet with the so-called opposition parties and leaders, who nevertheless do not hesitate in meeting with members of the U.S. Embassy and with any visiting Chávez opponent. As a result, we have an opposition that does not engage in politics, holds no dialogue, and which thus remains unseen, except by the media. Today, for instance, the opposition members are not on these premises, as they have, of their own volition, refused to participate and to represent a segment of the population. But they were absent even before, when they were by right elected deputies, failing to discharge the fundamental ethical duty of at least attending the Chamber's sessions. Accordingly, their absence is not noticeable. We do not notice it.

This is why I am going to say something that perhaps, out of prudence, I should not say. But sometimes it is convenient to put prudence slightly aside. Irresponsible attitudes such as those taken by the party-and politically-determined opposition end up by eliciting the citizens' repudiation, which entails the risk of the country's getting used to functioning without opposition, which is bad and undesirable and should be repelled by every democratic-minded individual. It is not as if the Government bans opposition—under Chávez no party has been outlawed and nobody has been persecuted for expressing himself and exposing his ideas, as occurred under *puntofijismo*, with the closing, for example, of the Communist Party, MIR, and other political and social organizations. Neither has parliamentary representation been subject to repressive measures, as occurred when several left deputies were detained in the sixties in flagrant violation of the Constitution. At this current stage, there have been parties involved in conspiracy, open defenders of a coup, and their legality has been respected. There have also been parliamentarians who engaged in adventures against constitutional order, such as a deputy who used to sit right here, who was appointed minister by Pedro Carmona. Nevertheless, his immunity was not taken away nor was that of others that had a similar conduct.

In this political and social process, which is profoundly democratic and respectful of the Rule of Law, the opposition is not suppressed or persecuted. What happens is that the opposition such as we have eliminates itself. It is not excluded; it excludes itself.

Let us look at what has happened since December 4, 2005, an emblematic date when the opposition excluded itself from parliamentary life. The country keeps on functioning. Polls indicate that its refusal to participate was a grave mistake, an opinion shared by many who abstained. The National Assembly is functioning normally—I even dare to say that it is functioning better than it did when the opposition held to its seats here. It now legislates with greater speed and efficiency. At the Vice-President's office I have a list of the projects now being discussed in the various Assembly Commissions. It is quite an impressive list.

Deputies have gone out on the streets to establish a live, direct connection with the communities. A fruitful, effective cooperation has been established with the other Government branches. Investigations are being carried out with earnestness and thoroughness: the case of the Ezequiel Zamora de Barinas sugar mill and of some others is illustrative and evidences the determination of the different branches of government to combat corruption and the old vices that plague public administration.

It is clear that the democratic response, which puts an end to the opposition's irresponsible way of acting out of the institutions, is a milestone. It is a responsible reaction on the part of the Bolivarian forces to the opposition's irresponsibility, to the torpor of this sector that still acts as if it were the Government to which it became accustomed after forty years of exercising power with impunity, making it forget what it is to be in the opposition. I am saying all this because the opposition such as we have must be urgently criticized so that it may resurge in proper form to play a serious, responsible, and democratic role. This is what all of us Venezuelans desire.

We, the members of President Hugo Chávez's Cabinet, submit this report to you, the people's representatives, to be carefully, thoroughly checked with a scalpel, X-rays, and laser beam or with whatever you may deem appropriate, just as the opposition used to do when it was present at this Parliament. We do not want special privileges. The members of President Chávez's Cabinet do not want them. If there are management flaws and vices, please proceed without inhibitions, as it is incumbent upon an autonomous, sovereign, fully responsible

State body. Differently from his predecessors, Chávez, the chief of the Executive Branch, does not cover up for anyone, does not tergiversate, does not protect the corrupt, drug traffickers, and dishonest people. Nor does he tolerate lack of ability in his government apparatus. You must rigorously play the control and criticism role others have abstained from. The way is open before you to engage in decisive action.

We submit to your consideration the outcome of persistent team work, free of pressure by outside groups and of economic and social interests other than the determination to govern for the majority. Briefly, this report covers the following key aspects among others:

### Ministry of the Interior and Justice

- The identification system has been reinforced in 2005. To this end, a Fundación Misión Identidad [Identitfication Mission Foundation] was established, which made possible the reliable, sure, and efficient issuing of identity cards to 4,752,614 citizens.
- The modernization of the identification and foreign status systems and the records and notary's offices was begun.
- The Citizens' Security Plan was launched, under which both prevention and State security actions are undertaken.
- Under a joint policy of the Ministry of the Interior and the Ministry of Defense, the latter represented by components such as the National Guard, a far-reaching action has been undertaken against drug trafficking. Incidentally, the U.S. Government once again has come out with the rigmarole it repeats every year, citing Venezuela as a kind of drug trafficking paradise. In an incisive statement carried by the media yesterday, Minister Chacón refuted the reckless affirmation by the U.S. Government, which has no moral authority to set itself up as a judge in this matter. The Washington Government has no moral authority because the country with the highest consumption of drugs is precisely the United States, with approximately forty million drug users.

  In addition, high-ranking members of President George Bush's government are involved with drug trafficking and the U.S. financial system is also deeply interpenetrated by the drug traffic. The U.S.

Government not only lacks moral authority to accuse Venezuela in this regard; from the practical standpoint of a well-coordinated policy to combat drug trafficking, it has had a resounding failure. Today it uses the fight against drug trafficking as a mere political banner, as drug trafficking and traffickers are to be found in the United States and not in Venezuela.

- A plan to make the penitentiary system more humane has been implemented, covering the entire inmate population of 19,879 individuals.
- A public order policy without repression is in place. The terrible instrument of repression to address the public order issue has been thoroughly extirpated from Venezuela. This does not mean that no punctual occurrences arise, owing to irresponsible policemen and anarchical police forces. I do say, though, in an absolutely responsible way, that repressing citizens is not a State policy, a policy of this Government, differently from what happened under Fourth Republic governments, when repression was the essence of the public order policy. In this respect, there is a world of difference in the way the National Government has acted each time a human rights violation has occurred. It has not shirked its responsibility; it has put into action the competent jurisdictional bodies.

  As regards drug trafficking, I should add that drug seizures in the country have risen forty percent since the DEA left Venezuela.

## Ministry of Foreign Affairs

- Something very important happened in 2005: the National Government, through the Ministry of Foreign Affairs, coordinated humanitarian and solidarity actions with countries of the region. As usual, this elicited irresponsible criticism from opposition sectors, for which human tragedy means nothing, under the coarse allegation that we are spending the Venezuelans' money outside the country, with the intention of belittling this policy's importance.

  I want to tell the people's representatives and the media that we are proud that, without neglecting our country's needs—as witness the missions through which the Venezuelan poor have received support from the State as never before—we have been able to help men and women in Latin America who have been hit by tragedy and natural disasters. The fact that we can reach out to the populations of Granada, Santo Domingo, and Jamaica and to give a hand to the victims of Bolivia and of any nation hit by tragedy should fill us Venezuelans with pride and satisfaction, as our convictions do override petty considerations.

- Our foreign policy has encouraged multipolarity and faced up to the sole pole represented by the great imperial power. We do not accept a world dominated by one power. We believe in multipolarity, which allows the manifestation of all expressions of the world in a framework of peace and dialogue.
- With the firmness characteristic of the Bolivarian lineage, we have given impetus to Latin American integration, showing a determination and a calling evident in the way President Chávez, through the Foreign Ministry, has multiplied the integration effort. As a result, Venezuela has joined Mercosur. This is one of the most notable accomplishments of our foreign policy, which no one, save those not attuned to our country, can repudiate.
- We currently maintain the best relations with every country in the world, including countries with which we have political and ideological differences. Only with one we do not have good relations, owing to its own fault, not ours, namely, the United States. Venezuela's Foreign Ministry and its Head of State have earnestly sought good relations with the United States, but with the despicable team now presiding over the White House it is impossible to maintain good relations. The gang of four consisting of George Bush, Dick Cheney, Donald Rumsfeld, and John Negroponte precludes the possibility of maintaining relations in a climate of dignity and mutual respect. Although Venezuela is conscious that it is a small country that cannot militarily compete with the Empire, it exerts its sovereignty in utter dignity and is not willing to renounce it.
- Owing to our foreign policy, each day we become better known in the world as well as better recognized, which may be even more important. We become more recognized because of our domestic achievements, the design of our foreign policy, the way we have forged an alliance not

only with Latin America but with the world in general, in the pursuit of a policy of understanding and dialogue.

- Each day we feel prouder of being Venezuelan in the concert of nations. This is no rhetoric figure on my part. This is confirmed by a survey published today by the National Opinion Research Center, which says that Venezuelans and Americans are the proudest of their respective countries.
- This survey shows, for instance, that Venezuela ranks first with an 18.4 score, followed by the United States at 17.7; Australia at 17.89; Austria at 17.4; and Chile at 17.1.
- Why this recognition? Why is this so? Because we Venezuelans have implemented a process that confers dignity on the poor. The poor have ceased to be inhabitants of a country to become citizens and if you are citizen of a country, you are also a citizen of the world. This is why no matter what some members of the media may say with the intent of belittling the Venezuelans' capacity and of demoralizing them, the result is totally different. This country is proud of what it is today and of what it will continue to be.

## Ministry of Finance

- The number of loans approved by the public financial system rose 94 percent as compared with 2004.
- Significant features of financial management have been the entry into operation of the Treasury Bank and the establishment of Fonden, the National Development Fund.
- Collections by the National Customs and Tax Integrated Service-Seniat in 2005 totaled 38.46 billion bolivares, a 142.1-percent compliance with the established target. Whereas before no taxes were paid, the might who did not pay them now have to do so and are subject to collection.
- A total of 327 applications for foreign exchange surrender (ALD) have been processed, amounting to 20,156 million, a 13.6-percent increase over 2004.
- A new methodology has been adopted for the national public budget and has been applied in the preparation of the 2006 budget.

- The famous Argentine debt bonds, so much questioned by the opposition and some mediocre economists, have earned Venezuela profits of about US$75 million. Moreover, half of these bonds, of the money invested in them, worth billions of dollars, have already been bought by the private banking sector, consisting of twenty six Venezuelan banks. The bonds were not mediocre but their critics certainly were.
- The country risk, which stood at 270 in 2005, dropped to 217 yesterday, as I have been told by Nelson Merentes. We are on the brink of investment, that is, we are in and optimal situation that offers extraordinary prospects for foreign investment.

## Ministry of Defense

- In 2005, joint work by the military and the civilian sectors became consolidated. In the barracks, perfect tranquility has prevailed—tranquility conducive to work, professionalism, and the definitive defeat of any type of adventure. This was the outcome of the historic connection established between the National Armed Force and the Venezuelan people. This binomial, which has been a decisive factor over seven years in the defense of the constitutional order and the revolutionary process, became firmly and unequivocally established in 2005.

  At this point I must express recognition for the National Armed Force, the highest military authority.
- Several projects have been implemented in connection with the procurement and maintenance of weapons systems and with training, as never before. Barracks and military equipment have been revamped. Today our Armed Force is uniquely and efficiently equipped, also as never before.
- Projects have been implemented to revamp and modernize the National Armed Force's infrastructure, with emphasis on units along our borders. Our border policy has been reactivated. We have thousands of men and tens of posts along our borders as required by security and defense as well as by the need to counter the scourge of contraband and drug trafficking. We have for the first time managed to put firmly in place a National Armed Force security cordon along the 2,216-km border we share with Colombia. Our borders have become a key factor in the Government's policy, closely linked to our national defense.

- As regards education, enrollment at Universidad Nacional Experimental de las Fuerzas Armadas – Unefa has risen nationwide. The current number of Unefa students is impressive.
- The general lineaments of the new military doctrine have been defined and publicized. For the first time in our modern history, Venezuela has a national security and defense policy. Not a borrowed policy based on a design conceived abroad, but a policy formulated by Venezuelans, by Venezuelan officers, in accordance with our national defense needs. The old notion that the Armed Force operated as a kind of occupation force has been superseded by that of a Force closely associated with the nation and the people and identified with common objectives. This is the new security and defense reality in which, incidentally, the asymmetry in case of an eventual conflict does play a decisive role.

## Ministry of Light Industry and Commerce

- The Ministry of Light Industry and Commerce promoted Venezuelan exports on the international market by holding five major trade negotiation rounds with Chile, Colombia, Cuba, the United States, and Uruguay, which resulted in business deals totaling US$1,637,500. The Ministry has also held the Exponaval Venezuela Internacional 2005, at which it publicized the 2006-2010 Venezuelan Naval Industry Investment Plan, which foresees a demand totaling 79 billion bolivares.
- It has strengthened the strategic alliance for technological transfer, capability building, training, and trade among the countries of the region, in the context of the First Latin American Encounter of Enterprises Rehabilitated by Workers, held in Caracas.
- The domestic market has been strengthened as a result of five business rounds, when the demand identified by twenty three enterprises and government agencies operating in the area of goods, works, and services totaled 1.4 billion bolivares.
- In connection with the Executive Branch's plan of endogenous and social economic development and productive job generation launched by the Government, the Ministry implemented the Mobile Venezuela and the family basket programs. The objective is to ensure the population's rights in every area of the national public action.

## Ministry of Basic Industry and Mining

- The price of iron ore sold by CVG Ferrominera was revised. Since November 15, 2005 the price was set at 100 percent of the international price, whereas it stood at 40 percent before that date.
- On a proposal by the Ministry, the Executive Branch issued Decree 3895, a landmark for the national transformation industry, which guarantees the provision of raw materials to be made into products with higher added-value.
- An investment plan has been launched to rehabilitate basic enterprises and to give rise to a new generation of enterprises in key sectors for the country’s industrial development.
- Work has been expedited on the construction of the second bridge over the Orinoco River and the Caruachi Hydroelectric Plant, both to be opened in the first semester of 2006.
- A US$750-million loan has been approved by the Inter-American Development Bank for the Tocoma hydroelectric project.

## Ministry of Tourism

- The Ministry of Tourism supported the promulgation of the reform of the Tourism Organic Law.
- Preliminary investment was made in the following endogenous development nuclei: La Tortuga, Morro de Puerto Santo, Río Caribe, Canaima, El Yaque, el Tirano, and Chichiriviche.
- Norms have been established for financing the endogenous development of domestic tourism.
- The 1-percent collection target has been exceeded, with an increase of 57.62 percent.
- The Ministry held the First Caracas International Tourism Fair-Ficar 2005, in which fifty-six countries participated.
- Support was given to the development of communities with tourist assets, through the reinforcement of 17 mixed state funds.

- Through the tourism capacity-building program, 31,741 people have received training.
- The Ministry coordinated the expansion of the Venezuelan Consortium of Aeronautic Industries and Air Services-Convisa, which carried 173,208 passengers and totaled 3,074 of flight hours in its first year.

## Ministry of Agriculture and Land

- A Crop and Production Plan and an Integral Production and National Agricultural Development Plan for 2006 have been prepared.
- A total 6.33 billion bolivares has been spent on the financing of 2.32 million hectares and to help raising the agricultural GDP above 2.6 percent.
- Legal security has been granted 143,212 peasant families, small and medium producers in an area of 1,215,152.68 hectares, who received 3,000 *cartas agrarias* (agrarian deeds), 80 land titles, 780 proofs of right of continued occupancy, and 29 funds have been redeemed.

## Ministry of Higher Education

- The Sucre Mission received 94,787 new college graduates, a 72.7-percent increase over 2004
- The Community Integral Medicine training program recruited 15,325 students, after training 5,000 people's consultants.
- The Cuba-Venezuela agreement has been enhanced and a Latin American School of Medicine has been established in Ciudad Gurí.
- Fundayacucho benefited 8,586 active students.
- A total 20.7 billion bolivares have been paid out under 2002-2003 homologation norms.
- In accordance with the transparence policy, the Ministry paid the outstanding labor debt of 646 billion bolivares, thereby benefiting 95,031 university professors.

## Ministry of Education and Sports

- In 2005 Venezuela was declared free of illiteracy. The eradication of illiteracy was a historic victory.
- The Simoncito Plan [day care], the Bolivarian elementary and secondary schools, and the Robinsonian technical schools projects have been consolidated.
- Enrollment rose to 11,810,336, including the various educational levels and modalities, as well as educational missions. By the end of 2005 we should have 16 million students. You can figure the percentage in a population of 25 million. I believe this is a world record.
- Over 150,000 students benefited from food programs.
- Grants were awarded 1,125 educational and cultural institutions.
- A total 3,560 teachers were trained.
- Under the productive school project to contribute to food security, 3,000 agroecological school vegetable gardens were established.
- The Seventh National School Games event was held and the participation of Venezuelan delegations in various international sport events received support. As if this were not enough, we won the Caribbean Series. We have also won the Rio Carnival competition, which has bothered some, who are in mourning over it.

## Ministry of Health

- The national public health system has been strengthened by the consolidation of the Barrio Adentro I, II, and III program, which has built 957 consultation offices, 12 popular clinics, seven of which are already open; 100 rehabilitation rooms, and a high technology center.
- Under the "Yo Soy" National Identification Plan, 75 hospital units for recording births have been set up and are in operation.

I know that this review is somewhat long. I could not digest it when I was a deputy, but as the opposition says that we have done nothing in Government, it serves at least to show it what we have done in just one year—2005.

- The National Hygiene Institute produced 6,685,791 vaccine doses to be used in the extended immunization and zoonoses control program and 100,000 doses of new combined tetra- and penta-vaccines (Cuban-Venezuelan Agreement) as part of the development of new products to meet the needs identified by the Ministry.
- With respect to major health problems affecting the population, it has been possible to enhance the effectiveness of cancer control.
- Investment on prevention and on guaranteed treatment for all individuals living with HIV has increased.
- Further progress has been made by the organ transplant program, with more than 200 transplants made.
- Progress has also been made in the provision of bone implants, ortheses, and prostheses.
- Guaranteed free treatment of all tuberculosis patients has been maintained.

## Ministry of Labor

- Seven Labor Inspection Offices have been modernized in accordance with the new model of administrative labor justice that dignifies and expands the effective coverage of services.
- The stability and job preservation scheme has been extended until March 31, 2006, which benefits all workers earning a basic monthly salary of up to 633,600 bolivares.
- Five hundred forty-eight new local and national labor organizations have been registered and 2,528 have updated their records.
- A total 564 collective bargaining agreements have been signed, which benefited 195,549 workers directly.
- Nationwide, 260,833 users have been universally and freely assisted with advice and representation before administrative instances as well as judicial instances with labor competence.
- The National Employment Service has signed up 7,490 enterprises and 130,074 users of the service.

- Under the co-management scheme involving workers, entrepreneurs, and the Government, three enterprises have been established and are in operation: The Endogenous Venezuelan Paper Industry-Invepal, the Endogenous Venezuelan Valve Industry-Inveval, and the Endogenous Venezuelan Textile Industry-Invetex. This is an ongoing process that will be further intensified in the coming months.
- At the hospital ambulatory care centers maintained by the Venezuelan Social Security Institute-IVSS, 6,283,690 patients received attention.

## Ministry of Infrastructure

- Work on the construction of the bypass viaduct in Vargas state has begun. The shortcut has been open. I prefer the word shortcut to bypass. Incidentally, at the presentation of his report, Minister Ramón Carrizales will hand out the book with a little bag containing the screws.
- The country's major highways have been repaired.
- A Latin American Children's Cardiologic Hospital has been built.
- Housing rents have been frozen.
- Significant progress has been made in the construction of mass transportation systems to be inaugurated in 2006: the metro systems of Maracaibo, Caracas, Los Teques e Valencia. And they say we have not built anything!
- A trolleybus system is being developed in the state of Mérida—the Operative Vitrina Tromérida.
- The Caracas-Tuy Medio railway system is integrated into the basic metro network and the National Railway Plan.
- Progress has been made in respect of the "deep-water port" construction project.
- A Water Bodies and Islands Council has been set up.
- Implementation of a project has begun to modernize the air control system nationwide. Today our airports are first rate. This is the root of the problem we have with the United States, which refuses to recognize it and this is why U.S. airlines cannot fly to Venezuela.

## Ministry of Energy and Oil

- Implementation of a policy aimed at full sovereignty in respect of oil was started, the beginning with the termination of the so-called operational agreements and with the changeover to mixed-economy enterprises. We are talking about oil sovereignty as this country never new before. A stop has been put to the disorder prevailing under the former PDVSA management. Today Venezuelan oil is truly Venezuela's. It is administered and managed by Venezuelans, for the sake and benefit of Venezuelans and nobody else.
- For this very reason, the *Siembra del Petróleo* Plan has been given a thrust.
- Also given a thrust was the quantification and certification *Magna Reserva* project in the Orinoco Oil Belt.
- The harmful tetraethilic lead is no longer a component of our gas.
- Progress has been made in respect of the Petrocaribe and Petrosur energy cooperation agreements.
- The National Petrochemical Plan was drafted and put into execution with the reactivation of the fertilizer plant of the El Tablazo petrochemical complex and the development of an olefins plant in Jose.
- Unrestricted support, both financial and organizational, has been extended to the various missions, that is, support to the people. Oil for the people.
- Impulse has been given through Fonden and Fodespa to the endogenous development nuclei, social production enterprises, and cooperatives as well as to the implementation of major infrastructure works, such as railway trunks, hydroelectric plants, and highways.

## Ministry of the Environment

- Fifty-nine kilometers of steel tube have been installed as the first stage of the Bolivarian aqueduct of Falcon State, (a 215-billion bolivares investment) which will benefit 450,000 inhabitants.
- The beds of rivers affected by the February flash flooding caused by a fierce tropical trough (*vaguada*) have been restored (a 110-billion bolivares investment).

- Work has begun on recovery and maintenance of the Guaire River basin (a 128-billion bolivares investment).
- Work has begun to restore the El Guapo dam (a 66-bllion bolivares investment).
- The Los Guayos, Taiguaiguay, and La Mariposa treatment plants in the states of Aragua and Carabobo have been restored, thereby advancing the drainage of Lake Valencia.
- Construction work has been done by Mesas Técnicas de Agua in the construction of aqueducts and sewerage.
- Implementation of the National Productive Reforestation Plan was begun, with the setting-up of 34 conservation committees and ten conservation brigades.
- A first endogenous development nucleus was established in the Muaina community in the Delta Amacuro state.
- Twenty-one land deeds for over 600,000 hectares have been awarded to the ethnic groups Kariña, Warao, Pumé, and Kiwi.

## Ministry of Planning and Development

- The Ministry of Planning and Development coordinated the macroeconomic policies in support of the consolidation of economic growth.
- It gave impulse to compliance with the millennium goals and promoted a social inclusion analysis.
- It prepared the Annual National Operational Plan according to a new concept, whereby projects became the central axis of the public administration agencies' annual management.
- It established a hierarchy of government actions according to integration fronts and decentralization axes.
- It promoted the Northern Plain Axis as an area on which to focus the land policy.
- It brought inflation under control—inflation was less than 4 percent in February. I do not know anything about economy, so I asked Jorge Giordani and Merentes, who are experts, if this meant that we were

entering a deflation phase, as I had understood that deflation was worse than inflation. They told me that deflation is not a danger when there is growth and we are indeed growing as never occurred in Venezuela before.

## Ministry of Science and Technology

- The Ministry of Science and Technology has assumed responsibility for encouraging and developing knowledge generation and transfer processes geared to endogenous development, national sovereignty, and social inclusion.
- It has supported the promulgation of the Science, Technology, and Innovation Law.
- It has signed a Simón Bolívar satellite agreement. We now have a satellite; we are now a first-class country.
- It has established the Venezuelan Technological Industry for Assembling Bolivarian Computers; the Technological Innovation Center; the National Telecommunications Development and Research Center; and the National Chemical Technology Center, among others.
- It has put the Pegamma plant into operation.
- It has built a pharmaceutical plant.
- It has implemented the National Seed Plan.
- It has established 76 productive innovation networks, 150 infopoints, 97 infocenters, two infomobiles, and one infolab.
- It has implemented Decree 3390 on free software.
- It has prepared the National Science, Technology, and Innovation Plan-CIT.
- It has held the Second National CIT Fair.
- It has granted 571 higher education scholarships in the various fields of knowledge. Science is finally part of the Venezuelan State policy. The Venezuelan State finally has a policy aimed at the country's scientific development.

## Ministry of Communication and Information

- With the implementation of the means legislation, the Ministry of Communication and Information has ensured the following:
  - Venezuelan music accounts for 50 percent of all radio broadcast programs;
  - Broadcast publicity is 85 percent nationally produced;
  - Advertisement aired is 100 percent Venezuelan;
  - Advertisement, promotion, and campaigns connected with alcoholic beverages and cigarettes have been banned from the radio and from both general and subscription television;
  - Language, health, sex, and violence are subject to special schedules—general, supervised, and adult viewers. Social control to improve content quality is carried out by 920 user organizations.
- The Ministry has given impulse to the development of the National Independent Production-PNI and certified over 5,000 national independent producers.
- It has expanded the coverage of State management and intensified the dissemination of the Bolivarian thinking and the transmission of regional values, as well as the room for appropriate youth participation.
- It has established the new Televisión del Sur-Telesur, with live signal 24 hours a day. Incidentally, the newscast is extraordinary—I recommend it. And Jesús Romero Anselmi has returned to channel 8.

## Ministry for Popular Economy

- The Ministry for Popular Economy has trained 264,720 *lanceros* and *lanceras*.
- It has established 6,814 cooperatives thusly classified: agricultural battlefront, 2,251; service battlefront, 1,730; industrial battlefront, 723; infrastructure battlefront, 723; and tourism battlefront, 514.
- It has put into operation 130 Endogenous Development Nuclei-Nude.
- Through the financial and microcredit institutions it has extended 5,335 loans to the *Vuelvan Caras* mission cooperatives, totaling 861,450,816,496.68 bolivares.

## Food Ministry

- The Food Ministry has distributed upwards of 6 million kilograms of food per day to the most vulnerable segments of the population.
- It has benefited 15 million citizens with top quality products while saving an average of 37 percent in relation to market prices.
- It maintains over 14,000 sales establishments.
- It has established 900 cooperatives and over 1,400 private enterprises.
- It maintains 6,000 restaurants, which serve 900,000 low-income people.
- It has achieved the country's largest grain storage capacity, raising the number of silo complexes from 6 to 27, which has increased storage capacity from 100 million to 1.3 billion kilograms, thereby benefiting 43,000 agricultural producers.
- It has begun to build the country's most modern cold storage facilities network (Barcelona, Maracay, Maracaibo) and recovered the La Guaira and Quibor cold storage facilities, each with a capacity of 6 million kilograms.
- It has recovered and put into operation three agroindustrial enterprises: Café Venezuela, which had been inactive for 11 years; Frutimoca, now Fruticasa, inactive for 16 years; and Enfria, now called Logicasa.
- It has worked together with entrepreneurs and producers to prepare and begin implementation of the Livestock Development Plan.

## Ministry of Culture

- The ensemble of goals and achievements of the Ministry of Culture, established in 2005, may be evaluated from both a qualitative and quantitative standpoint. It should be pointed out that 99 percent of the 317,940,654,545 bolivares allocated under the budget law and amendments have been spent—314,673,704,418.43.
- Today, culture is part of the people's life. It has ceased to be an elitist culture to become a clear expression of the will of the Venezuelan State and Government to extend culture to all segments of the population.

## Ministry of Housing and the Habitat

- The Ministry of Housing and the Habitat has contributed to the change in the habitat by integrating the excluded population into the labor market.
- It has generated 44,999 direct jobs and 134,997 indirect jobs in the popular communities.
- It has assisted 84,430 families through its different strategic lines of action: Closing the Cycle; Replacing Shacks with Houses-Suvi, Average Home Plan; New Settlements; VIII Program; Land Committees; and Rehabilitation.
- It has built 41,330 new homes.
- It has made possible direct housing subsidies; long-term mortgage loans with resources from the Obligatory Savings Fund-FAO; mixed credit; community funds credit; OCV-FAO credit totaling 1,181,791.33 billion bolivares, which has benefited 31,800 middle class families. There remain 12,405 housing issues to be solved in 2006.
- It has established a strategic alliance with the State banking sector (Treasury Bank, Industrial Bank of Venezuela, Banfondes, and National Housing Bank).
- It has extended long-term mortgage loans with resources from the Obligatory Savings Fund, totaling 660.550 million bolivares, thereby benefiting 21,193 families.

## Ministry of Popular Participation and Social Development

The activities of the Ministry of Popular Participation and Social Development, established on August 31, 2005, have been geared to compliance with the constitutional mandate of social protection as a social right and a right to organization and public participation as a community right. Accordingly, the Ministry has:

- Reinforced the integration of productive chains through projects that promote community organization.
- Benefited 783,265 adults and elderly citizens under an integral care and financial assistance policy.

- Awarded 6,542 land titles to 24,640 families.
- Given 543 homes to needy people.
- Benefited 128,912 families with infrastructure works and equipment for the thorough rehabilitation of districts.
- Assisted 336,809 children and adolescents through the program titled "Social integration of handicapped children, adolescents, and youths."
- Distributed 1,200,000 top-quality school uniforms to pre-school and elementary school children from low-income families.
- Built 579 popular health care centers that have benefited 723.750 people and generated 13,896 direct and 20.265 indirect jobs.

## Integration and Foreign Trade Ministry

- The Integration and Foreign Trade Ministry has coordinated and set up negotiation scenarios and integration processes.
- It has given impulse to trade-related events in conjunction with Uruguay, the Brazilian state of Paraná, and the Havana Fair, and to binational encounters that have led to the signing of 136 cooperation agreements with countries of the region.
- It has coordinated trade-related events that have led to upwards of 106 cooperation agreements with strategic allies such as Iran, China, countries of the Middle East and other countries of Asia, France, Spain, Italy, and the European Union.

## The Vice-President's Office

The Vice-President's Office has fully discharged its constitutional functions as the President of the Republic's immediate collaborator and public administration coordinator. As such, it has developed activities that encompass the following:

- The New Phase and the Mobile Ministries. Priority in 2005 has been attached to the deepening of the guidelines for the "New Phase, New Strategic Map" announced by the President of the Republic in November 2004. This has involved the institutional strengthening of the Vice-President's Office, which has to do a permanent job as a political and strategic institution, whose efficiency requires dynamism and flexibility.

Conduction of the New Phase is the responsibility of the Presidential Coordinating Office, which is presided over by the Executive Vice-President and whose other members are the Ministers of Planning and Development, Science and Technology, Light Industry and Trade, and Defense.

Through this mechanism 237 productive projects were approved in 2005, which were submitted by governor and mayors and totaled 1,152,380,584,654 bolivares, thusly distributed:

| | No. of projects | Allocation |
|---|---|---|
| Governors' | 30 | 293,889,353,458 |
| Mayors' | 207 | 858,491,231,196 |
| Total | 237 | 1,152,380,584,654 |

- Promotion of citizens' participation and establishment of close relations with all State institutions, particularly with the National Assembly. This continuous activity of the Vice-President's Office ensured the fluidity shown by institutions in 2005.

## Mr. President, Messrs. Deputies,

We have worked at the core of the National Government and for all Venezuelans, particularly for the neediest, the lowliest, those that have been always relegated and excluded. We have been moved by the conviction that it is possible to improve the condition of our people, to eliminate the poverty pockets created by injustice and privileges, so that Venezuelans are no longer led by delusion of postponing social and ethical redemption according to a view that situates happiness further away.

The French poet Paul Eluard, supreme advocate of liberty, once said: *There is another world and it is in this one.* The other world is right here and it is here that we must create the happiness of all Venezuelans, without excluding anyone. Let us make this into a reality, under the sign of solidarity, peace, democracy, justice, and genuine respect for the human condition, which is an essential factor of a true revolution, such as the one led by President Hugo Chávez, in which the Venezuelan people play a protagonist's role.

My distinguished colleagues of the Council of Ministers will submit to you their 2005 reports. The verdict lies in your hands. Whichever it may be, it will be accorded total respect from the National Executive Branch because we live in a democracy and under a true Rule of Law. Thank you. DEP

Version: João Coelho

The Letter
Oil on Canvas – 116 x 58 cm

# Pedro Lira

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Pedro Lira probably painted “La Carta” (“The Letter”) in the last years of the 19th century. Unfortunately, the artist never dated his paintings, so a tentative date for it can only be established through comparative study of his works’ subject matter. We may thus place “The Letter” sometime between 1885 and 1890. It was a period in which the painter produced numerous works having women as their central subject.

## Who was Pedro Lira?

The artist was a member of the Chilean aristocracy of the time, and this in itself would eventually cause him problems, starting with his family. In a society dominated by prejudice and class cleavages, to be a painter was not regarded as a particularly prestigious occupation. He was forced to pursue law studies and to graduate as a lawyer in order to fulfill his father’s expectations. Once such paternal command was obeyed, however, he devoted himself entirely to his artistic pursuits and never worked as a lawyer.

Lira studied art at the Painting Academy that had been established in 1849, and his first teacher was the director of the Academy himself, the Italian Alessandro Cicarelli, who started Lara in the rigor of neoclassical drafting and the rationalism of neoclassical aesthetics. Lira’s next steps took him to Europe, where he spent the following ten years (1873-1882), most of which in France. He perfected his skills there with Jules-Elie Delaunay, Jules Bastien-Lepage, Jean-Paul Laurens and Evariste Luminais. This academic orientation is evident in the works of his historical and mythological cycle, which include “Prometheus Bound” (1883) and “The Foundation of Santiago” (1885), the latter a large-scale work that won him second-place medal at the Paris Salon of 1889.

Back in Chile, Lira continued to work as a painter while systematically disseminating and teaching fine arts. He also found the time to write a “Biographical Dictionary of Painters” (1902), and to create and develop an exhibition space (1885) known as “The Parthenon” on account of its Doric columns, which preceded the establishment of the National Arts Museum (1910). Lira’s strong and commanding personality ensured him a central role on the Chilean artistic scene.

“The Letter” is an example of the artist’s Romantic inclinations, which bear the mark of Delacroix, a painter for whose work he developed a keen interest. Lira eventually left behind historical and mythological subjects to focus more intimately on his personal, subjective self, though he never abandoned the visible world, the concrete data of reality. Representation and perception are joined into one in his work. This attitude always led him to privilege fidelity to the model and to respect the formal structure of things, placing his excellent technique at the service of his chosen subject matter.

In a room, a woman, elegantly clad in a fine long dress that betrays her social status, is represented in a pose that is both innovative and intriguing. It leads the observer to focus his attention on the nape of her neck, her hair and the folds of her dress. Pedro Lira has condemned us never to see her face, so that her identity will forever be just as mysterious as the letter she hides behind her back at the realization that the door to the room is being opened.

Who will walk in? Maybe her strict father? A jealous husband? Who wrote the letter? What are its contents? What are the woman’s feelings as she suspends her reading at the impending presence of someone approaching the door?

“The Letter” is a mysteriously beautiful work of conjecture.

Pedro Lira came to realize, at last, that art is able to show reality by hiding it. DEP

# Construtora Norberto Odebrecht

## The Backbone of South American Integration

### The Madeira Complex can impart a new direction to the development of the South American Center-West and provide a new model for the region

Mercoeste—the region and the market covered by this word may be crucial to a promising future for South American countries. Brazil, Bolivia, and Peru are about to take a decisive step toward the integration of production and thus toward the economic progress of the South American Center-West. The Madeira Complex, a project of utmost regional importance, is to be established on the border shared by these three countries, more precisely, along the Madeira River and its tributaries. This strategic location with a huge hydroelectric potential to be exploited can have a pivotal role in the integration of water transport among the partner nations, as Brazil would gain access to the Pacific Ocean, Peru to the Atlantic, and Bolivia to both, thereby interconnecting the two oceans.

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The Madeira Complex has everything to become an international showpiece, demonstrating that it is possible to achieve the integration and development of South American countries and their institutions, to the benefit of riverine populations and towns, without harming the environment. High investment in technology, through the use of bulb turbines for low head, which allow the reservoir to be slightly larger than the basin naturally formed during the river's yearly overflowing, endows the project with a distinctive feature from an environmental standpoint.

The regional import of such an integration project can be assessed by the fact that the area contemplated includes, on the Brazilian side, the state of Rondônia, the northwest of the state of Mato Grosso, the upper and lower Acre River valley, and the south of the state of Amazonas. On the other side, it includes Bolivia's Pando, Beni, and Santa Cruz de la Sierra departments, and Peru's Madre de Dios department.

The area within Brazil is of great strategic importance as it abuts the northwesternmost portion of the area of agribusiness expansion on Brazilian (as well as on Bolivian) soil and forms part of the zone known as the deforestation belt. It lies between two macroregions served by separate power systems—one isolated (formed by the Rondônia / Acre and the Manaus grids) and the other linked to the Center-West and Southeast-South systems).

Moreover, the area lies in the biome transition zone between the savannas and the Amazon rain forest and is located in the valley of the Middle Madeira and its tributaries. Natural obstacles (rapids) in the stretch between the cities of Porto Velho and Guajará-Mirim preclude a waterway connection between the Upper Madeira and its headstreams in Bolivia and Peru, and the Lower Madeira, in the portion that extends from Porto Velho to the Amazon River, which is already fully integrated into ocean navigation.

In the last century an attempt was made to overcome the natural obstacles presented by the Madeira River, through the building of the Madeira-Mamoré railway to connect the cities of Porto Velho and Guajará-Mirim in the state of Rondônia. This railway was part of Brazil's counterpart under the 1903 Brazil-Bolivia agreement, known as the Petropolis Treaty. The agreement, which contemplated a swapping of lands and other compensatory measures, was aimed at endowing Bolivia with an outlet to the Atlantic Ocean.

Brazil faced great hardship in laying this railway owing to the region's insalubrious conditions, which resulted in countless cases of malaria and other tropical diseases. Despite the great effort spent on it, the railway was closed in the 1970s because of the debacle of Brazilian rubber on the international market and of President Juscelino Kubitschek's decision to invest on highways as factors of national integration. Today only a thirty-kilometer stretch is in operation for local tourism.

Between 1970 and 2000, the region experienced a surge in population, from 170,000 to 2.3 million people. Particularly in Rondônia, the population increased more than twelvefold in this period, totaling 1.4 million in 2000. To a great extent, this is an urban population. The population of the Porto Velho municipality, for instance, is 82 percent urban.

No more than 20 percent of urban homes in this region are connected to sewerage systems (IBGE's 2000 Census); in such precarious conditions, demographic concentration is explained by the comparative advantage of an urban setting vis-à-vis the lack of access and electricity in nonurban areas.

These factors, coupled with thermal electric generation based on diesel (a high-cost, extremely polluting fossil fuel with limited expansion possibilities, the supply of which requires a huge logistic effort), curtail productive activities and make them dependent on services or products of low aggregate value, thereby leading the population to resort to the less onerous alternative of living in urban centers, notwithstanding the latter's shortcomings. The area thus remains shackled by limiting conditions in respect of physical infrastructure in Brazil as well as in Bolivia and Peru—precarious or nearly nonexistent access and scarce electricity supply, which choke economic growth.

The implementation of the Madeira Complex can thus impart a new direction to the development of the three countries and provide a kind of backbone for the South American integration process. The implementation of the Madeira River waterway and the construction of the planned hydroelectric plants—Santo Antônio (3,150 MW) and Jirau (3,300 MW) between Porto Velho and Abunã, on the Brazilian side; Binacional (3,000 MW) on the Guaporé River, between Abunã and Guajará-Mirim, on the Brazilian-Bolivian border; and Esperanza Falls (800 MW) on the Bolivian side—can give a thrust to regional development, thanks to the integration of the energy (10,650 MW) and transport infrastructure linking Brazil, Bolivia, and Peru, with the addition of 4,225 navigable kilometers upstream from Porto Velho.

Furthermore, as the requisite transmission lines are also planned, the generation of a significant supply of low-cost electric power, a strategic, key input for inducing the development of the South American Center-West, will allow the linking of the electric grid of the states of Rondônia, Acre, and (western) Mato Grosso to the Amazonas grid and to both the Brazilian and the Bolivian Interlinked Electric Systems.

Integration and cooperation between Brazil and Bolivia in the area of electric power would be achieved through the construction of the Guajará-Mirim hydroelectric plant, with and estimated installed capacity of 3,000 MW, and of the Esperanza Falls plant, situated entirely on Bolivian soil, with an estimated installed capacity of 800 MW.

Today, hydroelectric power generated in Bolivia has a guaranteed market in Brazil, which requires between 3,000 and 4,000 MW a year at the current development pace. Thus, electricity sales could earn Bolivia about 400 million dollars annually, which nearly equals the country's current annual deficit. As Bolivia's energy requirements rise, Brazil would decrease its purchases accordingly, pursuant to plans.

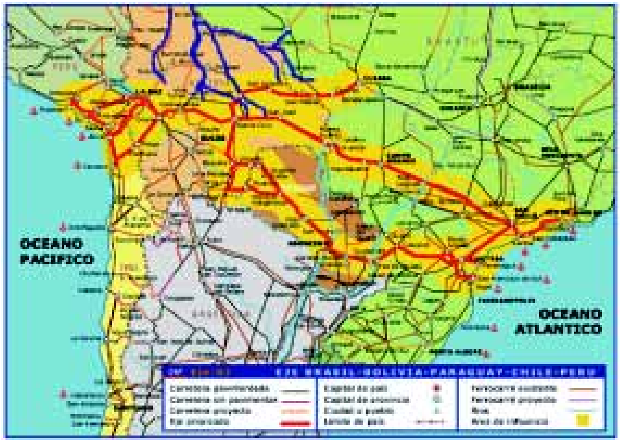
In addition, the waterway would allow Bolivia to increase its grain production through the use of 11 million hectares that currently have no access to the foreign market, as there is no way crops could be taken to market. Preliminary estimates based solely on the price of soybean on the international market point to an addition of 8 billion dollars to Bolivia's GDP, should this crop be adopted. This means a positive impact of about 100 percent on the country's GDP, which would significantly reduce Bolivia's external vulnerability.

What is even more important is that Bolivia could become the logistic hub of the connection between two oceans, linked to the Atlantic by the Madeira-Amazon waterway and to the Pacific by the multimodal linkage to the Peruvian ports, the anchor project of the Peru-Brazil-Bolivia Integration Axis (Axis 6) of the South American Regional Integration Initiative-IIRSA undertaken by the

twelve countries of our subcontinent and which has the support of the Andean Development Corporation-CAF, the Inter-American Development Bank-IADB, the Financial Fund for the Development of the Plate River Basin-Fonplata, and Brazil's National Economic and Social Development Bank-Bndes. This would facilitate access to the American, European, and Asian markets in terms of logistics and transportation costs.


The Madeira River and its headstreams in Peru and Bolivia form part of this corridor named Axis 6 by Iirsa. Thus, the implementation of river navigation on the Madeira River's Bolivian headstreams would allow the operation of a network interconnecting Axis 6 and Axis 3 (Center Inter-Oceanic Connection) through Bolivia's Santa Cruz de la Sierra region, making this region accessible.

Moreover, electric power generation makes possible the development of the agricultural goods processing industry with aggregate value, in addition to the birth of a promising naval industry to meet this production's transport requirements. The Santa Cruz de la Sierra, Beni, and Pando agribusiness could become more competitive owing to the lower freight costs of the waterway modal transport. Mining could also be contemplated, given the access possibilities that would make such activity feasible, spurring the creation of jobs and exponentially benefiting productive chains in the three countries involved in the project.




The replacement of land transport by waterway transport, the feasibility and rational development of agricultural diversity in the South American Center-West, the removal of obstacles to traffic toward major metropolitan areas, the elimination of log floating down the rivers of the region, and the replacement of thermal energy by hydroelectric energy generation, which is cheaper, renewable, and nonpolluting, are some of the project's environmental benefits.

Thus, in addition to making the area less dependent on the extraction of natural resources by increasing and diversifying economic dynamics with higher aggregate value products while preserving natural assets, the undertaking tends to enhance the State's presence in the form of institutions that are prepared for the governance of the region. This would make institutional initiatives more effective at the different government levels and lead to the elimination of conflicts and to orderly land tenancy. A direct consequence of the region's greater participation in the domestic and the international market—as a frontier for business, employment, and income expansion resulting in trade balance surpluses for the countries involved—tends to be a significant improvement in human and social development indicators in the urban centers and among the riverine populations, owing to proper access to essential public services in the areas of health and education, which in turn keep pace with progress.

Brazil is forging ahead toward the achievement of the contemplated objective through its state and private enterprises. In 2004, Furnas Centrais Elétricas S.A. and Construtora Norberto Odebrecht S.A. submitted to the National Electric Energy Agency-Aneel feasibility studies on the Hydroelectric Exploitation-AHE of Jirau. In 2005, AHE feasibility studies were also submitted for Santo Antônio, in addition to the Strategic Environmental Evaluation of these two Brazilian hydroelectric plants, which are to be the object of invitation for bids in 2006.

Taking a major step toward the materialization of this project that could give a new direction to the development of the entire South American Center-West through the productive integration of the different Amazon subspaces into the so-called Marcoeste requires greater synergy among the institutions of the neighboring countries. This in turn should be based on convergence ensured by public-private partnerships and investment in programs for improving and expanding the subcontinental infrastructure. This is an essential step for opening up regional opportunities that can make South America less vulnerable economically as it seeks to build a multipolar world geopolitics. DEP

Version: João Coelho.

# Grupo Andrade Gutierrez

## Andrade Gutierrez in Peru: partnership for development projects

Projects for the integration of Latin America, a dream that has kindled hearts and minds for generations, must overcome all manner of obstacles if they are to come to fruition. The political and strategic interests of the nations involved, the economic and financial constraints on the investments required and a host of geological, climatic and environmental adversities often hamper approval and implementation of such projects. Despite the setbacks, however, much has been done to promote regional development and integrate South America.

With more than 20 years' experience in Latin America, operating in most of Brazil's neighbouring countries, the Andrade Gutierrez Construction Company has acquired considerable first-hand knowledge of the dreams that fire Latin America's imagination and the challenges that must be surmounted to bring them into being. In Peru, where they have already completed a number

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of important projects, Andrade Gutierrez have been working since 2005 on two undertakings that represent a decisive step along the road to dearly-sought integration of South America. These are the North and South road routes built under concession in a Public-Private Partnership (PPP) scheme similar to what already exists in Brazil but which is a novelty in Peru. The projects are part of the Plan of Action for Integration of South American Regional Infrastructure (Iirsa), and signal the fact that Peru has made a head start in relation to other South American countries in seeking solutions to boost development.

## Projects inaugurate partnership model

The projects Andrade Gutierrez has won in public tenders are key to plans for integrating Peru and enabling it to place its goods and services on strategic markets. In the partnership model these projects inaugurate, the Peruvian Government acts as guarantor, providing funding institutions with surety. According to the company's market manager in Peru, Ronaldo Alves Pereira, "the projects reflect Andrade Gutierrez's maturity in the international arena where it has established a solid position and built up an undeniably good track record."

The first contract is the North Amazonas Multimode Axis, referred to as the North Axis. This is a 960-kilometre-long highway linking the river port of Yurimaguas in the Peruvian Amazon to the seaport of Paita on Peru's northern Pacific coast. The project comprises construction and surfacing of 130 kilometres of highway in addition to improvement and recovery of the remaining 830 kilometres. When construction work is at its height, the project will employ up to 1,500 workers.

This road cuts across the three types of landscape found in Peru: it departs from the plains of the Amazon Forest, crosses the heights of the Andes and finally traverses the desert reaches of the Peruvian coastline to the Paita seaport, providing a link between the Pacific and Atlantic Oceans along the Amazon River. "We have already worked in these regions and we know the geological problems we are up against and the variations in rainfall we will have to deal with, as well as the logistics required for a job of this kind. Our experience has stood us in good stead," states Pereira.

The total cost of the project is estimated at US$ 205 millions, with financial support from CAF[1] and IDB[2] supplementing funding from the shareholders. Andrade Gutierrez has a 40% stake in the consortium formed with the Brazilian construction company Norberto Odebrecht and Peru's Graña & Montero. The contract was signed in June 2005 and the concession on the highway is for 25 years, including the four years to be spent on construction.

The second contract is for a concession of the same length and will have a direct impact on the economies of both countries (Brazil and Peru). This is the South Inter-Oceanic Transportation Corridor project, known as the South Axis. It is designed to interconnect Peru and Brazil, linking Rio Branco (capital of the Brazilian State of Acre) to the ports of Ilo and Matarani in southern Peru. It is considered the biggest ever paved road construction project in Peru's history. For Brazil, the highway is important as it will facilitate exportation of its produce through Peruvian ports on the Pacific Ocean as from 2007. The Governments of Brazil and Peru have also agreed to back investment projects in their respective frontier zones to boost cross-border bilateral trade.

The cost of this second project is approximately US$ 180 millions, to be financed by the concessionaire company with support from Proex and CAF and additional funding from the stakeholders. Andrade Gutierrez has a one third share in the undertaking and is operating in association with two other Brazilian construction companies, Camargo Corrêa and Queiroz Galvão.

The project includes construction from scratch of a 300-kilometre stretch of single-lane highway in the South of Peru, linking the Peruvian town of Azángaro in the Andean *altiplano* to Inambari on the edge of the Peruvian Amazon forest. It involves a major logistical challenge in transporting building materials and equipment over great distances to places where access is tricky. Another difficulty is the variation in altitude: half the length of the road is to be built at altitudes above 3,500 metres in the upland plateau while, in the jungle areas, building work will be carried out just 500 metres above sea level. That difference requires adaptations for the entire crew.

Expectations are high surrounding this project. The Peruvian President, Alejandro Toledo, has declared to the press in his country that this will represent

[1] Corporación Andina de Fomento (Andean Development Corporation).
[2] Inter-American Development Bank.

the realisation of a long-held dream of the Peruvian people. “You will be able to reach Brazil in 24 hours along this road, compared with the fortnight it takes to make the journey now,” he said. Indeed, the old dream of integrating South America is at long last coming true. Integration and the enhancement of the South American bloc’s competitive capacity call for investments to reinforce the physical links between the countries comprising it. That implies interlinked transportation systems and road access to the Oceans on both sides of the continent – the Atlantic and the Pacific.

## Weaving a way through the Amazon forest

The implementation of these two key projects under the umbrella of a regional development policy is the most recent instance of the presence of Brazilian companies in Peru. Andrade Gutierrez’s involvement in infrastructure projects in Peru reaches back almost 15 years to the expansion of the liquid cargo terminal at the Port of Talara. That was followed by work on the South Pan-American highway, the power tunnel for the San Gabán Hydroelectric Plant, the Tarma-La Merced highway and the La Oroya-Huayre highway, all concluded in the 1990s. Since the year 2000, the company has carried out work on the Cuzco-Cambapata and Neshuya-Pucallpa highways.

In April 2004, Andrade Gutierrez commenced work on one of the most difficult projects it has ever undertaken: recuperation of the Campanilla-Pizarrón-Puerto Pizana section of the Fernando Belaunde Terry highway deep in the Peruvian Amazon jungle. Completed in a record 18 months, this project demonstrated the capacity of Brazilian engineering to overcome highly adverse climatic and geological conditions, complicated access to operating zones and the unstable social environment in the region.

The stretches Andrade Gutierrez worked on are located between the districts of Juanjuí, Campanilla, Pólvora and Tocache in the San Martin province. The region has 107 thousand inhabitants living in 42 small towns and villages. Travelling from one village to another for commercial activities demanded time and money. The 176-kilometre segment between Juanjuí and Tocache would take no less than 15 hours to cover. A vehicle breaking down, though, meant many more hours or even extra days for the journey. Local shopkeepers regularly lost up to 30% of their wares on account of precarious transportation. High maintenance costs for equipment and fuel consumption added further to the cost of production. Government estimates reckoned that the San Martin province lost as much as 250 thousand dollars a year due to the dreadful state of the road. Cut off from the outside world, these villages easily fall prey to drug-traffickers and guerrillas. The development of formal economic activities (e.g. agriculture, livestock and industry) had thus been drastically affected over the years.

In response to a movement led by local municipal authorities, the United States Agency for International Development (USAID) decided to invest funds to recover the highway. An agreement was signed with the United States Army Corps of Engineers (USACE), which assumed responsibility for organising bidding for the contract and for overseeing the work until delivery to the Peruvian Government. In partnership with the Ministry of Transports & Communications, a public contest was opened for recovery of the Fernando Belaunde Terry highway in August 2003. The contract, with a budget of US$ 230 millions, envisaged rehabilitation of the precarious existing road. That required the construction of drainage channels, control of erosion, environmental protection and asphalting of the road base. Owing to the considerable experience it had acquired on similar projects, Andrade Gutierrez was chosen for the job by USACE in February 2004. The go-ahead for work to begin was delayed 75 days, authorisation being granted only in April. However, neither the construction company nor the agency overseeing the project could imagine the almost insoluble difficulties that had to be tackled on a day-to-day basis.

## Obstacles and solutions

The initial challenge was setting up the construction site itself. It proved well nigh impossible to transport equipment to the site chosen at Nuevo San Martin. Dense vegetation had engulfed long stretches of the road, trucks got stuck in the mud or fell into huge craters and the few wooden bridges along the route could only take light vehicles. It took two whole months to install the camp, which was only complete in mid-July. Such difficulties were encountered along the entire route and also defied the team working from the other end of the highway in Campanilla.

Working conditions were highly adverse. It rained throughout 2004. Special techniques had to be employed to contain the constant mudslides. The engineering project had to be redesigned to surmount the natural obstacles encountered and adapt to local circumstances. The drainage system employed required mounting 450 culverts. e company mobilised no less than 160 pieces of heavy equipment and trucks to get the job done. Work was subject to rigorous environmental control since the road ran through diverse ecosystems and natural reserves.

Much of the success of the undertaking can be attributed to the bond of trust Andrade Gutierrez managed to build up with the local communities. When work was in full flow from June to September 2005, the company had 1,100 workers employed on the project, more than 60% of them from the San Martin region and the remaining 40% from the area between Campanilla and Puerto Pizana. Nearby communities were drawn into the project, supplying a variety of support services. Cooperation was intense throughout. The company's health services were made available to the population, and local schools received improvements. Social projects of local interest were developed in partnerships between the construction company and the communities involved. Open dialogue prevailed at all times, making the construction a project of collective interest.

Once again, the excellence of Brazilian engineering was put to the test and Andrade Gutierrez was able to prove its maturity in overseas projects. Construction work undertaken in such adverse conditions demands not only superior technical capacity but also the ability to meet other fundamental requirements. These include experience in providing logistic solutions and effective mobilising of resources, the capacity to adapt to local custom, respect for specific legislation in the host country and credibility to fulfil the contracts entered into. It was the combination of these attributes that enabled the company to conclude work on the Fernando Belaunde Terry highway.

More than just a construction project, this undertaking has opened the doors to development and progress for thousands of families who had long awaited such an opportunity. Peru has reintegrated one of its most remote regions into the social and economic life of the country. The time taken to travel from one end to the other of the highway has dropped from 15 to 4 or 5 hours. Transportation firms have resumed their activities, and the cost of freight has fallen, making end products cheaper for the region's population. The impact of the highway continues to reflect in various sectors of the economy. Private investors – both Peruvian and foreign – are arriving to finance agricultural and industrial projects, attracted by the renewed means of communication. A time of hope is dawning in the heartlands of Peru. DEP

Version: Mark Ridd

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DIPLOMACIA ESTRATÉGIA POLÍTICA
Volume I Number 3 April / June 2005

# Summary

DEP
DIPLOMACIA ESTRATÉGIA POLÍTICA
Volume I Number 2 January / March 2005

# Summary

D E P
DIPLOMACIA ESTRATÉGIA POLÍTICA
Volume I Number 1 October / December 2004

# Summary