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Thank you for inviting me to participate in this event. I'm very pleased to be back in Central America, and to be able to share with you some perspectives on Latin America's Economic Outlook.

Allow me to begin by recognizing the enormous amount of time and effort that many of you have invested over many years, to make our part of the world, a more prosperous place. By prosperous, I mean much more than just economic growth: I mean the consolidation of democratic values, the strengthening of human rights, and the advancement of opportunities for Central Americans to live in peace, and have the opportunity to pursue their wellbeing! For all of your work in this cause, as well as for your attendance today, I thank you.

You invited me to talk about trade and integration. Let me be clear from the beginning: I favor both. Properly used, trade and integration can enhance opportunities for entrepreneurship and development. I know this first hand because I have worked extensively on both issues during the past years, first as a businessperson, and later during my years of public service.

In addressing these issues today, I would like to establish three premises, on which I hope we can all agree:

1. The first one corresponds to the fact that there is not one, but rather several Latin Americas, each region with particular strengths and weaknesses, and

therefore with the possibility to tailor its own plans for economic growth. Therefore “one size does not fit all”, when it comes to discussing regional perspectives.

2. The second premise is that trade and integration, as important as they are, should not be seen as ends in themselves. They are at best, only complementary instruments that should be used by countries with intelligence, as part of a much wider array of tools with which to construct their future. Therefore trade and integration are not “the magical solution” to our development challenges, but rather components of a much larger national effort.

3. The third premise is that countries, especially poor countries, need a national strategy with which to extract value out of the process of “globalization”. Development of this strategy is too important to be left in the hands of governments alone, and must incorporate the private and academic sectors as well as civil society. Conversely, those countries that do not have a strategy, will feel “globalization” extract maximum value out of them!

In the case of Latin America, and particularly Central America which is the region under the microscope in this conference, the path towards a brighter future already has a solid foundation in the consolidation of peace, the growing of democratic institutions and respect for human rights, and the regional efforts for greater integration. However these conditions – as difficult as achieving them has been, are no longer by themselves a guarantee of a brighter future. Today, we must use trade and integration as tools to move forward with courage and determination and shift the paradigm of development, towards what some of us have been calling sustainable development.

Why towards sustainable development? Because there is conclusive evidence in many parts of the world that only through the combination of three cornerstones of sustainability can we effectively improve our future wellbeing. These three elements are:

1. Strong macroeconomic balances that encourage both internal savings and direct foreign investment;
2. Strategic investment in human development, mainly through health and education;
3. Establishing an alliance with our environment and our natural habitat, so that our development potential is aided by the environment, and not affected by it.

Trade and integration, can effectively contribute to strengthening these three elements. Allow me to stake out one more claim, that goes directly to the heart of the ethical and moral values we should embrace in our development.

Sustainable Development in Latin America should have one particular imperative: fighting and winning the war against poverty. This requires on the one hand the return to an agenda of growth and prosperity, and the other hand the implementation of effective redistribution policies.

225 million persons in Latin America, live in poverty. Many of them are part of the 1.2 billion people living on less than one \$ per day. I know that we have heard these figures often, so often that we have grown somewhat less sensitive to them. Therefore let me put them in perspective: cows in Europe "earn" 3 to 5 \$ per day in agricultural subsidies, and in Japan up to \$7 per day! I have nothing against the cows, but I just feel it points out some of the absurdities of our world that we must address!

Effective redistribution policies will address another reason for this particular emphasis on fighting poverty: Latin America is the most unequal continent in the world. Let me illustrate this point with some figures:

- The richest one-tenth of the population of Latin America and the Caribbean earn half of total regional income, while the poorest tenth earn only 1.6 percent.

- Using the “Gini Index” of inequality in the distribution of income and consumption, from the 1970’s through the 1990’s Latin America measured nearly 10 points more unequal than Asia, 17.5 points more unequal than the 30 countries in the 4 Organization for Economic Cooperation and Development (OECD), and 20.4 points more unequal than Eastern Europe.

These conditions of poverty are also relevant to our discussions this morning, because to some extent the world seems to be divided today in two camps, both claiming to work to alleviate poverty:

1. One camp, which I would presume we all belong to, claims that it is precisely through trade and economic integration that we can best reduce these horrible inequalities.

2. The other camp, claims exactly the opposite: it is open trade and economic integration – referred to in general terms as the process of “globalization”, that has increased the disparities and inequalities.

And at the end of the day, there is probably some truth in both arguments.

While both camps wish to move forward in the solving of development challenges, the way forward is not easy. While both “Davos” and “Porto Alegre” share this objective, they disagree on the means towards the end.

As we say in Spanish, “si el desarrollo fuera fácil, todos seríamos desarrollados” (if development was easy, we would all be developed).

Besides the traditional difficulties encountered by development, allow me to share with you some additional complexities of more recent recognition:

- The advance of globalisation at different speeds in different places, is leaving many with a bitter sense of economic exclusion.
- This sense of exclusion is not only in economic terms, but in political terms as well. Today many feel disenfranchised from the political decision making process, as they do not feel themselves adequately represented by political leadership.

- This feeling is exacerbated by the lack of political attention paid to the “global common goods”. Who is responsible at the global level for the environment? Nobody is!
- And this only confirms the growing inability of the architecture of international organizations, to cope with the problems we would like them to fix.

Given this challenging global outlook, one alternative for us Central Americans would be to follow the saying of our Costa Rican forefathers: “Esperemos a que se aclaren los nublados del dia”, meaning (let’s wait for the clouds to clear). Indeed, a rapid glance around the neighborhood would suggest that this saying of our forefathers has become our main strategy. In my own country, this seems to have become the governing principle during the last years!

And as we wait for the clouds to clear, the world moves on. Our forefathers saw the industrial revolution from far, as one sees an old train advance slowly over the horizon. Facing great difficulties, they barely managed to load that train with agricultural commodities, of low added value. Today, some regional political leaders fail to see that we are blessed by the possibility of living in the high technology revolution, which is more like a passing jet. On this jet, we do not want to load our products, we wish to travel ourselves! .....

It is therefore high time for action. Action requires at least two elements: the vision to articulate national and regional strategies, and leadership to implement them! Let me therefore first address the issue of strategy, and later the issue of leadership.

As a compelling strategy to successfully compete in the global economy, I have already offered moving in the direction of sustainable development. However let me now also offer an organizing principle for the concrete actions that must be taken, which is the issue of “competitiveness”. Not the short term competitiveness obtained by manipulation of currency exchange rates, low wages, or the depletion of our natural resources, but rather the true

competitiveness based on efficiency, that leads to productivity, and that in turn leads to higher value added, rendering a nation the resources with which to increase wellbeing.

Under this organizing principle of competitiveness, let us then analyze in some detail what trade and integration can do for us. But let us also analyze some other important and complementary elements for action, which provide the opportunity for true synergies.

With respect to trade, Central America as a region is in the midst of negotiating its Free Trade Agreement with the United States. Let me also be clear with respect to this agreement: I fully support our negotiating such an agreement, as long as it is a comprehensive and high quality agreement. The quality of the agreement however, will only depend on our leadership, and our negotiating capabilities. I'm sure this is a complex process with many hurdles and obstacles. I'm even more certain that the United States will continue to negotiate hard and aggressively. But at the end of the day, I'm also sure that they will have much more respect for a firm and determined negotiating stance on our part, than for a subservient and submissive attitude. Leadership after all, is understood and honored by our American friends.

If we negotiate with intelligence in such a direction, we will achieve a two-fold environment: on the one hand, we will maximize the quantity and quality of opportunities generated and the ability to transform them into realities. On the other hand, we will minimize the number and danger of existing risks in order to reduce their negative impact on our path to development. This scenario would without question be, a very positive one for our region.

Assuming we negotiate with intelligence, I favor this agreement for many reasons. There are the obvious reasons such as having access to a market of 300 million persons, with a healthy per capita income and a healthier appetite for consumption. Or the new job opportunities that would be created by greater investment, that are so needed by the new generations

of Central Americans. However there are less obvious reasons for being in favor of a free trade agreement, of which I wish to mention two:

1. FTA's give us a legal security with respect to trade conditions which is far superior to the actual status of unilateral arrangements, such as the CBI in our region. It is much better to have free access to trade within a FTA between sovereign states, than one granted as a unilateral concession and normally attached to temporary circumstances. This higher legal standing encourages further exports and more investments in activities with higher value added. And thus, it helps countries continue to develop their comparative advantages, with which to become more competitive.

2. FTA's also diminish our "country risk", as evidenced by other nations that have signed FTAs. Countries that have signed more agreements, especially with large economies or regions, are more likely to experience a "country risk reduction", which over time is conducive to better conditions of access to foreign capital by both our private and public sectors, and added competitive advantages for our countries as a whole.

Allow me now to tackle the other issue you have invited me to talk on, which is the issue of regional integration. Again here, let me start by stating my position in unequivocal terms: I am a committed integrationist. I worked hard towards that objective during my Presidency, even launching the "Alianza para el Desarrollo Sostenible en Centro America" (ALIDES), subscribed by the United States at the Summit of the Americas in 1994, on the occasion of the launching of the "Area of Free Trade for the Americas". I also know full well from those times that my views on this matter are not popular in my region, much less in my own country. Leadership however is not a popularity contest. It is about showing a way forward, instead of following the status quo!

About five decades ago, five Central American countries embarked on the path towards integration when they promoted the objective of eventually establishing a Central American common market. At the same time, precisely in 1957, six European countries became the founding members of the European Steel and Coal Community.

Five decades later, while Central America has yet to achieve a thriving common market, the European Steel and Coal Community has advanced into the most far reaching and all encompassing integration we have experienced in human history. Allow me to share some other examples:

- Central America has “integrated” personal safety problems fueled by two Cold War conditions: massive availability of arms, and young generations that grew up in national cultures of violence. Europe instead has cross-national police cooperation.
- Central America has “integrated” illegal immigration. Europe has unrestricted access to all nations for all its citizens, governed by the Treaty of Schengen.
- Central America has “integrated” tax evasion, while Europe has common tax laws precluding tax frauds.
- Central America has “integrated borders”, that inhibit efficient flow of products. Europe has common border installations that facilitate trade.
- Central America has “integrated” money laundering, while Europe has a common Central Bank, with a common monetary policy and even a common currency.

Central America has a common history, a common language, but no common vision, much less political will. Europe has a varied history, many languages, but a common vision and political will !

I would like to suggest that the experience of nearly 50 years of European economic integration is one that we should study closely and use as a working model. There are several aspects of the process of European integration that I believe are worth examining and that could have important implications for our region.

- First, the process has been gradual in nature. During the early phase EU members were largely focused on trade issues. It was only later, as they saw

the benefits of freer trade that they ventured into other areas of economic activity.

- Second, while the process was generally focused on the need to eliminate economic barriers among members, the vision was always political: that of an ever-closer union of states, coexisting peacefully in an environment of shared values.
- Third, those driving the process recognized early on that institutions matter a great deal, specially to anchor the intellectual agenda. Hence the creation of a supporting institutional framework, such as the European Parliament, the European Court of Justice, the European Commission and so on. By the way, we have created all of this in Central America, and have yet to use it adequately.
- Fourth, European countries and, more specifically, political elites and the public have had to learn that successful integration depends on the ability to subordinate narrow national interests to the interests of the collectivity. Jean Monet, the founding father of the EU used to say that giving up sovereignty in particular areas was at the heart of the European experiment and that this was a sign of political maturity. We in Central America have given up sovereignty with respect to other things such as smuggling of goods because we do not have the means to avoid its occurrence, or drug trafficking which does not respect our borders, and yet we feel insulted when confronted with the notion of addressing more positive ways of sharing modern concepts of sovereignty.

With the incorporation of 10 new members in May of 2004, the EU will become the world's largest economy. It already is the world's largest trading block. The EU is now a continent where a Spanish young woman may move to London and start working anywhere without requesting a "work permit." It is a continent where an English citizen was elected mayor of a city in southern Spain. It is a continent where only some five weeks ago, the chancellor of Germany asked the President of France to represent German interests at a gathering of EU states. Some five decades ago, they both lost

over four million lives fighting each other in the Second World War! It is a Union that has constructed a broader vision of citizenship, based on a system of values which are consistent with the emergence of a fully integrated and unified community of nations, in a globalized world.

- Why can't we Central Americans pursue a similar economic and political agenda? There are more things in common between us, than between Estonians and Spaniards!
- Why can't we share a common vision of our future, a common strategy through which to compete and attract foreign investment in the globalized economy?
- Why can't we aggregate our resources and share real Embassies in the Far East (and in many other nations around the world) that would pursue our interests in an effective way, instead of having individual dilapidated diplomatic representations that have no resources to work with?
- Why can't we have an integrated eco-tourism plan – from Petén to Darién – and launch a global promotion campaign together?
- And why can't we have a truly integrated negotiating strategy and team in this Free Trade Agreement? Do we really think we are stronger as individual countries?
- Why can't we do for the Central American economies what Manuel Obregón and his "Orquesta de la Papaya" have done by fully integrating Central American music?

I pose these questions in the spirit of contributing to generate a debate about the broader implications of regional integration. Let's be farsighted. Let's offer our citizens a vision that can cultivate their imagination, that can capture the world's attention, and that provides an intellectual framework for an ambitious sustainable development agenda.

And for those that are still doubtful, the present trade negotiations prove my point. The United States said it would engage in trade negotiations with all of us, or with none us! I rest my case for regional integration.

At this point, I have fulfilled my commitment with all of you: you invited me to talk about trade and integration, and I have done so. But I will not let you off that easily. Having come all the way from Geneva, where I work at the World Economic Forum, in some final minutes of my presentation I must challenge all of you, and my fellow Central Americans as well.

From the distance I have followed the regional public debate concerning the trade negotiations. At some times it has been presented as “la pomada canaria” (the miraculous cure), that if approved will solve all our problems, and at other times as a total disaster. It is neither. Of course we will be better off with a high quality free trade agreement. But we must go further, as even that would not be sufficient to fill our development needs, and much less our aspirations of wellbeing. A closer look around the world will hopefully convince us, that this FTA is only another step, with many more necessary steps needed if we wish to increase our wellbeing in a very complex world. The cumulative effect of all our actions should be to render us less vulnerable to global challenges. Allow me to illustrate this by mentioning just two scenarios built on present global trends. The first one could become reality within the next 5 years, and the second one within the next 10 years, and they both have profound implications for our region’s future.

1. The medium term future of the US economy and the US dollar as a strong currency - the one we have our currencies pegged to, is not very clear. Our partner in this particular FTA, the United States, is running a 5% yearly fiscal deficit, with no signs of bringing this under control. At the same time, they are also running a trade deficit of over \$400 Billion per year. Any other country would be negotiating tough conditions with the IMF for a bailout loan. Yet the US has no need for this, since it is the beneficiary of the largest and most generous program of economic aid the world has ever known. China, one of the poorest nations on the planet, is today using its reserves (already 30% of

its GNP) to purchase massive amounts of US treasury bonds and therefore finance the deficits in the US, because it needs the US to continue buying its exports (40% of China's total exports go to the US). Other nations such as Japan, are doing the same. But is this condition really sustainable? At some point this bicycle will stop, interest rates could go through the roof, and the dollar will plummet. And where will we be left?

2. With China continuing to grow as it is growing, we could very well be witnessing the end of the manufacturing era for the rest of the world. Last year China devoured close to \$ 60 Billion in foreign investment. This year projections forecast an increase above the \$60 Billion level. China is beginning to be for the rest of the developing world that also needs foreign investment for its development, such as Central America, the economic equivalent of a "black hole" in physics. It swallows everything up! That amount of foreign investment coupled with extremely competitive low wages and a population of 1.3 Billion persons, could easily become the manufacturing place for the world. And will we manufacture even with this FTA? Do we really believe we can compete with China in any manufacturing processes?

Either one of these scenarios, or even both, are within the scope of the possible. In the world of today, the future is not a continuation of the past. Who would have believed the tragedy of 9 / 11 possible or even SARS?

One possible strategy to strengthen our regional competitiveness would be to use the present negotiations as a learning experience, and subscribe other regional FTA's. I am convinced that an integrated Central American negotiating position, which is different from all Central Americans attempting to act as a group, could easily negotiate a FTA with the EU. Europeans have always been generous with Central America, our economies are very complementary, and they would see as well an opportunity to help in our regional integration. This would also tie us into the euro zone in a very solid way, allowing us to spread our future currency risks.

However, trade alone will not maximize and guarantee permanent growth. As I have already mentioned, it is not a magic tool that will boost on a

sustained basis our competitiveness and hence our growth rates automatically.

Some additional efforts are absolutely necessary for us to undertake. Allow me to mention a couple.

- First, we need to become much more sophisticated in connecting the macro with the micro, so as to allow more successful business ventures in the framework of the FTA. It is true that a FTA provides new opportunities, but only we are responsible for taking full advantage of them. The last Global Competitiveness Report of the WEF is very illustrative in this respect. It suggests that low inflation, public finances under control, and a stable exchange rate, while all needed, are clearly not sufficient to ensure the creation of an environment for private sector activity that nourishes long-term growth. The most competitive economies in the world are those that have gone beyond the pursuit of the narrow objective of “macroeconomic stability” and have focused overwhelming attention on advancing their institutional infrastructure across a broad range of areas, including but not limited to: the labor market, the legal and regulatory framework, the financial sector, the barriers to entry to economic activity, and the efficiency in the allocation of public resources.

The Annual Competitiveness Survey carried out by the WEF casts an interesting light on our region. When asked “what are the five most problematic factors for doing business in your country” business executives in Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador listed the following five constraints as among the most important (in descending order of importance):

- An inefficient government bureaucracy;
- Limited access to financing, reflecting rigidities and inefficiencies in the financial sector;
- The prevalence of corruption, crime and theft;
- An inadequately educated workforce;

- The poor quality of the countries' infrastructure;

I would suggest that this list provides a good starting point for a constructive dialogue on the elements and the priorities in order to advance our competitiveness as I have proposed.

- A second issue is the technological gap, which is always a very visible variable in the international rankings of competitiveness. Our countries still invest very little of our GNP in Research & Development (less than 1% compared to the average of 2.3% in the industrialized economies). In the latter countries, there is a constant synergy and linkage between academic institutions and universities and private companies. The absorption of high quality technological knowledge continues to be very poor in our region.

Above and beyond all of this, we should with all seriousness undertake a region wide effort to move the base of our economy from "perspiration to inspiration". We need to move up the value chain, away from manufacturing and towards a knowledge based economy. Such a shift will render us much stronger as region, and more capable of navigating through the difficult and challenging waters of the global economy. I realize this is not done over night, however setting the direction and staying the course, would already go a long way towards this objective.

This is exactly the shift we began to achieve when we negotiated the INTEL investment during my government. By working together with the private sector, INTEL rapidly became a magnet attracting other high tech investments, and we began to witness the emergence of a high tech cluster. Today, this is by far the most dynamic sector of our economy, with the most value added.

Core to our migration towards a knowledge based society, is our effort in education. At every age, at every stage, education is the surest guarantee of a fair future. The new generations need to "learn to learn", instead of repeating what we have done, which is "learning to know". Education needs to become a lifelong process that is our permanent companion, and that

provide us as well with the most fundamental values. Values that we can all identify ourselves with, and that belong to all of us. Values are the key, and the door they can unlock is the door to the future.

So strong is my belief in education as the enabler to the knowledge society, that in the past I fought hard in this country to finally obtain a constitutional amendment calling for an investment in public education of at least 6% of GDP. It has been disheartening to observe recent efforts fighting hard to disregard this obligation with our future, because of fiscal pressures that should have been resolved in a different way. But then again, the courage to stand up for what is correct and visionary, instead of the easier weakness of bending with the changing winds, is not a common virtue.

I recognize it is a challenging task to finance education through life and also get more of our young into universities to compete with the best in the world. But that is the only way to remake fairness, and to build a successful society. Societies without poverty, with first class public services, with a new sense of community participation towards a future that make the dreams of generations come true.

By now I have staked out some ideas that go far beyond FTA's. They are necessary complementary actions to improve our regional competitiveness and advance our shift towards sustainable development. But even all of this may not be enough, if we do not at the same time live up to our global responsibilities. After all the concept of the global village we live in has never been so real, and so complex. Let me therefore call our attention to one of the most fundamental shortfalls we face today, and invite all of us to contribute towards its solution.

The process of globalization is unfolding in the absence of equivalent progress in the creation of an international institutional architecture that can support it and enhance its potential for good. There is no global environmental authority (nor global leadership); policy in this area is being done via ad-hoc approaches involving elements of international cooperation, voluntary compliance, and large doses of hope. In the

absence of a body with jurisdiction over the global environment and the associated legal enforcement authority, the fact, the international community has abdicated management of the world's environment to chance and the actions of a few well-meaning states.

The global economy has no lender of last resort—there is no reliable, depoliticised mechanism to deal with financial crises. Whether a country gets an IMF bailout or not in the middle of a financial meltdown is a function not of a transparent set of internationally agreed rules, but rather several other factors, including whether the IMF's largest shareholders consider the country to be a strategic ally worth supporting.

There is no agency charged with the responsibility for giving legal meaning to the noble principles enshrined in the Universal Declaration of Human Rights—hence Amartya Sen's description of human rights as being largely “heart warming sentiments.” And according to the US State Department, there are 44 nations with the capacity to build nuclear weapons. Therefore nuclear proliferation remains yet another example of global institutional failure.

What we are talking about, in a nutshell, is reinventing multilateralism in a way it will serve us well in the future. I already mentioned at the outset the inability of many institutions belonging to the global system to solve the challenges we wish them to solve.

After all, we created almost all of them over 50 years ago. However the world is in urgent need of a global institutional architecture that functions well, and we must commit ourselves to this task. In the same way that we all recognize the importance of regulatory frameworks for markets to function at peak performance, we should also work on establishing frameworks of coordination for a better functioning global society.

And this need for action allows me to finish my presentation by addressing one last issue: politics and leadership. The world is passing through difficult times and our region is not exempt from this reality. It is clear to me that it is

not easy for governments to cope with the dimension of the present challenges.

However, political leaders have now, more than ever, the mandate to earn the people's trust in a rapidly changing international context. Anyone who gets involved in government affairs might fall in the easy temptation of simply doing public affairs management rather than using office to transform a society with a strategic vision. We have witnessed several examples of that in our country in recent years.

Thus I would argue that we require renewed leadership, more competent, and with a clear awareness of the immense efforts required to build sustainable and long-lasting solutions to our challenges. Our collective purpose should be to harness the economic wellbeing I'm certain we can achieve by implementing many of the ideas I have discussed here, to rebuild the public realm, to discover amongst all the modern pressures, the virtues of community, of tolerance, of decency, of respect. To bring to this self interested consumer age, the value of solidarity.