CAPITULOS

25 Anniversary

SELA

Sistema Económico Latinoamericano
Latin American Economic System
Sistema Econômico Latino-Americano
Système Economique Latinoaméricain

From the Ghost of Seattle to the Spirit of Bangkok

58

JANUARY
APRIL
2000

Sistema Económico
Latinoamericano

Latin American Economic
System

Sistema Econômico
Latino-Americano

Système Economique
Latinoaméricain

CAPITULOS

From the Ghost of Seattle to the Spirit of Bangkok

58

JANUARY
APRIL
2000

Editorial Committee

Ambassador Otto Boye Soto
Permanent Secretary

Dr. Mario Vacchino
Develpment Director

Dr. Eduardo Mayobre
Economic Relations Director

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

Cover:
Roberto Matta (1911)
Chilean
«Open Earth»
1957
Oil on canvass
114.5 x 146.3 cms.
Photograph: Asdrubal Perdomo
Latin American Art Collection,
Fine Arts Museum
Caracas, Venezuela

CAPITULOS

Katty Salerno
Editor

Zenaida Lugo
Assistant

Diana Volpe
Translation and Editing

Capitulos is published, in English and Spanish, three times a year by SELA's Permanent Secretariat

CAPITULOS may be accessed through the Internet at SELA's website
http://www.sela.org
or requested from the Office of Information
Phone: (582) 202.5142
Webmaster: difusion@sela.org

Av. Francisco de Miranda
Centro Empresarial Parque
del Este (CEPE), Piso 1
Urbanización La Carlota
Caracas, Venezuela
Telephone: (582) 202.51.11
Fax: (582) 238.8923 / 238.8534
POBox 17035
Caracas 1010-A, Venezuela

Subscription

Latin America and the Caribbean	US$	50
Other countries	US$	60
In Venezuela:		
Three Issues	Bs. 20,000	
(includes mail delivery)		

Cover: Pereira & Asociados
Final Arts: Cecilia Zuvic
Publishing: Gráficas Franco

CONTENTS

CONTENTS

The Tenth United Nations Conference on Trade and Development (UNCTAD X), held in mid February in Bangkok, was the first international gathering of the XXI century.

Heads of State and Government, the highest officials from the major multilateral organizations, academics and representatives of civil society met in Thailand's capital during a week to deliberate on "development strategies (...) and on how to make globalization an affective instrument for development", according to the "Declaration of Bangkok" signed at the end of the Conference.

Only a few months before that, in November 1999, globalization had been the central issue of debate at the Ministerial Meeting of the World Trade Organization (WTO) held in the North American city of Seattle.

But, while in Seattle positions were irreconcilable to the point that the new round of multilateral trade negotiations could not be launched as expected, a climate of understanding prevailed in Thailand's capital between the many actors of international economic life, revealing a narrowing of the gap between the different positions on the issue of globalization.

This more or less shared position regarding the problems that must be faced has been called "the spirit of Bangkok", an expression that the Secretary General of UNCTAD, the Brazilian Rubens Ricupero, used in contraposition to the "Washington Consensus", the embodiment of the few rules that summarize the economic free trade policy that was the rage during the eighties.

Given the importance of this issue for Latin American and Caribbean countries, CAPITULOS presents in this edition some of the texts that emerged from the Thailand meeting, as well as several analyses of the challenges that will have to be faced for the "spirit of Bangkok" to become reality; of our countries' position vis-à-vis trade negotiations (regional, hemispheric and multilateral) and the tasks UNCTAD must perform during the next four years and which could lead, if its Member Countries so choose, to the development of strategies allowing for a more balanced management of the international economic system.

On the issue of trade negotiations, we also include a study reviewing the major aspects of the free trade agreement recently concluded by Mexico and the European Union, and another covering the ongoing negotiations between MERCOSUR and the fifteen countries members of the European Union.

We also present a comprehensive analysis of the recent evolution of foreign direct investment flows in Latin America and the Caribbean, which during the nineties multiplied by seven.

Latin America Integration: An Answer to Unidimensional Globalization?
Globalization is the result of mankind's scientific and technological progress and its implications encompass economic, trade, financial, political and social areas. However, it also implies risks and one of them is that it may become "mankind's uniforming monster". Because of this, and in the particular case of the Latin American and Caribbean countries, integration represents a way of counterbalancing globalization's "unidimensional" tendency and of insuring our region's active participation in that process.

Integración latinoamericana ¿respuesta a una globalización unidimensional?
La globalización es el resultado del progreso científico y tecnológico de la humanidad y sus implicaciones abarcan los campos económico, comercial, financiero, político y social. Pero también implica riesgos y uno de ellos es el de convertirse en un "monstruo uniformador de la humanidad". Frente a ello, y en el caso particular de los países latinoamericanos y caribeños, la integración constituye una vía para hacerle frente a esta tendencia "unidimensional" de la globalización y para permitirle a nuestra región participar de una manera activa en ese progreso.

Intégration latino-américaine: réponse à une mondialisation unidimensionnelle?
La mondialisation résulte du progrès scientifique et technologique de l'humanité et ses conséquences se font sentir dans les domaines économique, commercial, financier, politique et social. Mais elle comporte par ailleurs des risques, notamment celui de se convertir en un «monstre menant à l'uniformisation de l'humanité». Dans le cas particulier des pays d'Amérique latine et des Caraïbes, l'intégration constitue un moyen de faire face à cette tendance «unidimensionnelle» de la mondialisation et de permettre à notre région de participer activement à cette évolution.

Integração latino-americana: resposta a uma globalização unidimensional?
A globalização é o resultado do progresso científico e tecnológico da humanidade e suas implicações abrangem os campos econômico, comercial, financeiro, político e social. Implica, igualmente, alguns riscos e um deles é o de converter-se em "monstro uniformador da humanidade". Por tal motivo, especialmente no caso dos países latino-americanos e caribenhos, a integração constitui uma via para fazer face a esta tendência "unidimensional" da globalização e para permitir que a nossa região participe de forma ativa nesse progresso.

Latin American Integration: An Answer to Unidimensional Globalization?

Otto Boye Soto
Permanent Secretary of SELA

Address delivered by the Permanent Secretary of SELA, Ambassador Otto Boye, at the II International Meeting of Economists, Globalization and Development Problems, held in Havana, Cuba, from January 31 to February 2, 2000.

For the first time, today I speak in an international forum as Permanent Secretary of SELA. As you all know, SELA is the only solely Latin American and Caribbean international organization. This has set SELA apart from all other international organizations and has shaped its activities throughout its twenty-five years of existence.

In keeping with this tradition, when asked to choose a subject to speak on I did not hesitate in selecting Latin American integration, specifically the question of whether it is an answer to a one-sided globalization process. As we all know, Latin America and the Caribbean face, as all other great areas of the world do, the challenge of globalization and are thereby confronted with dilemmas that must be resolved in the near future and thus require immediate analysis and action.

Today, the general view regarding globalization is that it is, mainly, a phenomenon that is a direct result of humanity's scientific and technological progress. However, we are aware of the fact that it also has economic, social and political implications that have progressively affected wide segments of the economy and of society and even our daily lives. Thus, it is also a phenomenon that has brought down walls, borders and other obstacles. In so doing, it has narrowed the spiritual and physical divisions that separate human beings. Yet, globalization is also an ambiguous reality. As everything else in life, it may do good or evil, depending on the uses to which it is put.

It is my belief, in this context, that a certain consensus is equally emerging whereby globalization and the uniformity it conveys are seen as a negative development that must be resisted. A future in which mankind has been made unidimensional by a homogenizing monster is something terrible and worthy of rejection. But it is a real and present danger.

This scenario is apparent in the similarity of the rules by which different states and economic agents must govern themselves if they wish not to be left aside or sanctioned; in the way economic agents perform, with the associated danger of what has been labeled as the "herd effect", and in the impoverishment of cultural diversity and its expressions. It also manifests itself in the reduced number of decision- making centers, both public and private, which dictate the procedures that must be followed by ever wider segments of the world's population.

"Integration is a way of sidestepping unidimensional globalization."

Lately, the phenomenon of regionalization has equally become stronger. The best example of this is the consolidation and future expansion of the European Union. In other latitudes –Asia, Africa, Latin America and the Caribbean– we also find vigorous and dynamic regional processes, particularly in the economic field. In fact, nearly all members of the World Trade Organization belong to one or several regional arrangements and the WTO itself is nearly emblematic of globalization.

In our region, integration has been particularly dynamic in recent years. To such traditional and pioneering arrangements as were Central American Integration, ALADI, the Andean Community and CARICOM, MERCOSUR has been added. Not only is MERCOSUR the largest integration organization in our region, it is also one of the most dynamic and successful. The large number of bilateral, trilateral and regional agreements reveals a clear political determination to establish closer relations. Nevertheless, these arrangements constitute a complex web in need of order and a sense of direction or what has come to be known as "articulation and convergence".

By its origins and calling, SELA is a promoter of Latin American integration. I believe that today more than ever this postulate stands fully valid. A new, urgent, reason must be added to those we have always given in support of integration: it is a way of sidestepping unidimensional globalization.

SELA has acted under this understanding and will try in the near future to make an additional contribution in this regard. We shall study and present proposals for stronger ties between the different sub-regional integration efforts and for better regional integration institutions. We shall, in particular, endeavor to find ways by which our integration efforts might allow for an insertion into the global economy that acknowledges our productive capabilities and our need to participate, not only as consumers but also as innovators, in scientific and technological progress. Reality shows us the way. It is an unavoidable step in the road towards the larger goal of achieving development and equity.

Integration is a subject much debated, but its results are still unsatisfactory. Problems have been solved and needed initiatives have become realities. During the nineties integration recovered the dynamism it had lost during the previous decade. But we are enmeshed in what appear to be anachronistic disputes. While the rest of the world is discussing the so-called last-generation issues we argue over the old issues of tariff preferences and levels.

Even while accepting that a science and technology induced globalization is a fact and that its effects will sooner or later reach even the most remote corners of the world, we still have a slight room for maneuver to insert ourselves into this major phenomenon on our own terms. We still have an opportunity to make a contribution. This is not just an ideal. It is an urgent necessity if we wish to avoid feeling crushed and dominated from outside the region.

Such room for maneuver is not only small in relation to globalization's intensity and to the powers it has unleashed but also of limited time. We must take advantage of it with urgency. We are confronted with a leveling process, evident in extra-regional regulations and commitments. If integration does not proceed at a faster pace than that of our inevitable insertion into the globalization process then our efforts will be void and the intensity of extra-regional developments will render them irrelevant. Far worse, we shall not be able to have our own say nor shall we be able to actively participate in the drafting and launching of such developments.

Integration and the search for other valid answers to globalization's perils pose an important challenge to economists. So does insuring that globalization's benefits fulfill the concerns and interests of the peoples of developing countries in general and of our region in particular.

This is a challenge faced not just by economists but by all that strive for the common good in our societies. It concerns all professionals of the social sciences. To confront such a challenge they must understand that the disciplines they practice are at the service of the people, its rights and duties. Their job is to support the overall vision which best serves their fellow citizens as a whole.

To meet such a challenge requires engaging into a dialogue and exchanging ideas. Just as in regional integration we aspire to establishing closer links in which our particular cultural and economic affinities are taken advantage of, so can we counterweight the process of uniformization by acknowledging the interrelationship that exists between the various phenomena which have a bearing on our national realities. The uniformization process has gained strength with globalization but it is not an inevitable consequence of it.

Born of scientific and technological progress, globalization is overwhelmingly present in economic exchanges and it has penetrated important areas of culture and daily life. Nevertheless, as regions, peoples and all different cultural identities learn to deal with this phenomenon which at present befuddles us, the bounty of human life's diversity will prevail. Reality and the need for diversity will be more evident. This will help us foster and better understand the interrelationships between different fields of action and disciplines. It will also draw nearer those peoples with closer affinities.

"We are at the onset of changes of such speed and strength that they threaten to paralyze us."

The time has come to consider these issues with urgency. We are at the onset of changes of such speed and strength that they threaten to paralyze us. The need to strip ourselves of any passivity, to join forces and to persist in efforts such as Latin American and Caribbean integration are goals and dreams our peoples share fully. They must motivate institutions such as SELA and gatherings such as this.

I therefore congratulate this conference, its select participants and its organizers. I urge you to work towards turning globalization into a better opportunity for mankind. To create the necessary mechanisms by which it may foster a better environment for all peoples of the world to live in peace and freedom.

The Spirit of Bangkok

In his closing statement at the X session of UNCTAD, its Secretary General, the Brazilian Rubens Ricupero, summarized the positions presented in that forum on globalization and the strategies to be followed in order to make it an effective instrument for the development of all countries. One of the most important conclusions was the realization that the distance between the positions held by academics, political leaders and international organizations' officials has narrowed. This new environment of greater understanding – which he prefers to call 'spirit' rather than 'consensus' – will be instrumental to undertake the practical actions that will lead to the creation of new, more effective, international institutions to deal with globalization's challenges.

El espíritu de Bangkok

En su discurso de clausura de la X UNCTAD, su Secretario General, el brasileño Rubens Ricupero, hizo un resumen de los puntos de vista que allí se expusieron sobre la globalización y las estrategias a seguir para hacer de ésta un instrumento eficaz para el desarrollo de todos los países. Y una de las conclusiones más importantes fue la de comprobar cómo se ha reducido la distancia en las posiciones entre académicos, líderes políticos y funcionarios de organismos internacionales frente al tema. Esta nueva atmósfera de mayor entendimiento -y que él prefiere llamar "espíritu" antes que "consenso"- será determinante para iniciar las acciones prácticas que permitan el surgimiento de una institucionalidad internacional más efectiva para hacer frente a los retos y desafíos que implica la globalización.

L'esprit de Bangkok

Dans son discours de clôture de la CNUCED X, son Secrétaire général, M. Rubens Ricupero, du Brésil, a résumé les points de vue qui y ont été exposés concernant la mondialisation et les stratégies à suivre pour en faire un instrument efficace du développement global. L'une des premières conclusions qui s'impose est que la distance entre universitaires, dirigeants politiques et fonctionnaires d'organismes internationaux s'est réduite face à cette question. Ce nouveau climat d'entente accrue –qu'il préfère nommer «esprit» plutôt que «consensus»–, sera décisif pour entamer des actions pratiques permettant la création d'institutions internationales plus efficaces pour faire face aux défis que suppose la mondialisation.

O espírito de Bangkok

No seu discurso de encerramento da X UNCTAD, o Secretário Geral, o brasileiro Rubens Ricupero, fez um resumo dos pontos que foram expostos na mesma sobre a globalização e as estratégias a serem seguidas a fim de que seja um instrumento eficaz para o desenvolvimento de todos os países. Uma das conclusões mais importantes foi comprovar como tem-se reduzido a distância nas posições entre acadêmicos, líderes políticos e funcionários de organismos internacionais em relação ao tema. Esta nova atmosfera de maior entendimento –à qual ele prefere denominar "espírito" em vez de "consenso"– será determinante para iniciar as ações práticas que permitam o surgimento de uma institucionalidade internacional mais efetiva para enfrentar os desafios que implica a globalização.

ANALYSIS

The Spirit of Bangkok

Rubens Ricupero
Secretary-General of UNCTAD

Closing statement delivered by UNCTAD's Secretary-General at the tenth session of the United Nations Conference on Trade and Development held in Bangkok from February 12 to 19, 2000.

In the course of our deliberations here in Bangkok, I have tried to reflect on the question that I put to myself at the opening session of UNCTAD X, the Round Table of Eminent Economists. I asked whether there are some broad lines of thinking about trade and development that have emerged with greater clarity as a result of our discussions.

The contributions that the Conference has received have been diverse and wide-ranging. We have listened to ideas from all points of the compass –from Heads of State and Heads of Government, from the delegations of Member States, from the leaders of international financial institutions, from congressmen, representatives of non-governmental organisations, and entrepreneurs from SMEs and TNCs, from the directors of the agencies and regional commissions of the United Nations system, as well as from academic experts.

After such a rich diet, we might be excused if we feel that we are suffering from a problem of intellectual indigestion, and if we reach for a little pill labelled "consensus" in order to ease the discomfort.

The economic discourse of the past decade was dominated by the so-called "Washington Consensus", twelve rules of economic policy with which all sensible people were supposed to agree. However, they quickly proved to be too restrictive, and even the World Bank, in the person of Professor Joseph Stiglitz, began to adventure "beyond the Washington Consensus". More recently, in the speech he gave to OXFAM's Gilbert Murray lecture in Oxford on 11 January, the Chancellor of the Exchequer, Gordon Brown, stated that "we need to move beyond the Washington Consensus of the 1980s, a creature of its time that narrowed our growth and employment objectives. Which assumed by liberalising, deregulating, privatising and getting prices right, private markets would allocate resources efficiently for growth. This has proven inadequate for the insecurities and

"The economic discourse of the past decade was dominated by the so-called "Washington Consensus", twelve rules of economic policy with which all sensible people were supposed to agree."

challenges of globalisation". And he concluded: "We need to find a new 2000 paradigm. The new consensus cannot be a Washington consensus, but as we have recognised in the poverty reduction strategies, countries must claim ownership and make it a part of their national consensus". It would be tempting now to be more adventurous still, to announce the arrival of the "Bangkok Consensus", and to hand you a different set of twelve points. I am tempted, but the fate of the previous consensus suggests to me that to do so would be unwise. Consensuses self-destruct. I will not, like King Canute of England, pretend that I can control the tide of world opinion on issues of fundamental concern to all. Neither will I offer myself up to some ironic comment like the one that Georges Clemenceau attributed to President Wilson's Fourteen Points when he said: "Even the good Lord contented Himself with only ten commandments, and we should not try to improve upon them".

"The key event of our time has been the ending of the Cold War, which brought with it a new awareness of the phenomenon of globalisation."

What I want to do today is more modest, but nevertheless significant for UNCTAD's member governments, its partners in the UN system and civil society. In other words, instead of trying to freeze the ongoing debate into a static mold labelled Bangkok Conensus, I will strive to capture the dynamic currents starting from opposite ends and gradually converging towards some common ground. I want to try to define the ways in which the spectrum of opinion has in fact narrowed in recent years, not just among academic experts, but also among national leaders and those at the head of international organisations.

The key event of our time has been the ending of the Cold War, which brought with it a new awareness of the phenomenon of globalisation. The ending of the bi-polar world of US and Soviet power also undermined the identity of the "third world" that tried to stand apart from both power blocs. The countries in this grouping have ever since had to define themselves in relation to the phenomenon of globalisation. That is to say, their strategic choice is whether they accept or reject a growing integration into a single system of trading and financial relations, in which the most powerful participant country is the United States.

As the Prime Minister of Singapore told the Conference, "Today, capitalism is everywhere triumphant . . . and that may pose a challenge". Mr Goh Chok Tong noted that, for countries that begin to integrate globally, rapid economic progress brings in its wake new insecurities. As the Asian financial crisis showed all too clearly, the consequent disruption is systemic in scope. The responses to these risks by the international community have been slow and inadequate, indicating the need for new institution-building in the international sphere. This is a task that will require both developed and developing countries to be more flexible in admitting elements of what have hitherto been purely domestic policies into international negotiations.

The end of the Cold War has created some of the pre-conditions for such mutual flexibility. One of the results of the collapse of the Russian and East European socialist regimes has been the virtual disappearance of the belief that the cutting of trade and financial links with the rest of the world will generate "true development". Now the debate is about the appropriate terms on which countries should insert themselves into the global trade and finance network.

The idea that the national state can itself spear-head a modernisation of the economy by means of state-owned industries is another casualty of the end of the Cold War. This strategy has lost its credibility because of its excessive fiscal and environmental costs. It also lost support because state enterprise was less effective than private ones in mastering the new technologies that are at the heart of economic development. Now countries are willing to create policy regimes that are attractive to private enterprises, whether domestic or foreign, that can bring about technological up-grading.

That macro-economic *instability* was ever strongly advocated is something that I doubt. However, it was commonplace for politicians to take actions that favoured higher inflation and growing balance of payments deficits in the hope that they would be bailed out of their economic crises by their Cold War partners. Now the imperative of macro-economic stability is much more generally respected. The debate today centres on the means to such stability, for example, the best policies for exchange rate management, and not the objective of stability itself.

In these three respects –freer trade, promotion of the private sector and the imperative of macro stability– I submit that informed public opinion has converged, during the last ten years, towards liberal views of desirable economic policies. Opinion is by no means homogenous, but the range of deviation is greatly reduced. This has provided the basis on which developing countries can move towards meeting the international standards that are involved in the globalisation process.

At the same time, however, such standards should not be set exclusively by the developed countries. They will have to be negotiated between all the parties that subscribe to them in a democratic and transparent manner. And, once they are negotiated, developed countries must be willing to be bound by them even when they cut across their particular national interests.

This is one of the clearest appeals made at this Conference by the Heads of State and Government who have spoken. A more inclusive and participatory decision-making process is needed at the international level.

The new world in which we have been living for the last ten years has not only been about convergence towards liberal economic policies. It has also seen the increasing acceptance of ideas that have been denied persistently by advocates of "uncritical market triumphalism".

> *"The new world in which we have been living for the last ten years has seen the increasing acceptance of ideas that have been denied persistently by advocates of "uncritical market triumphalism."*

For the sake of balance, I shall also cite three examples of this contrary movement of ideas.

The notion that capitalism is an economic system that is vulnerable to explosive financial crises has long been resisted. Although Keynes produced a *General Theory* that explained how monetary factors could prevent an economy from functioning optimally, the Cold War period was one of increasingly successful attempts to discredit the Keynesian analysis. Awareness of the vulnerability of the real economy, the economy of people's employment, income and investment, to malfunctions in the monetary sector, become blurred. There have been plenty of economists willing to argue that the complete freedom of markets, including money markets, would produce the best of all economic worlds. Fortunately, UNCTAD economists did not take that view, and from the early 1990s foresaw trouble ahead from what Juan Somavia has called "casino capitalism". As John Kenneth Galbraith recently remarked: "The fact is that capitalism in inherently unstable and it is particularly so in its early, infant stages".

When trouble came, starting in Thailand in 1997, it brought with it a reversal of opinion. That episode revealed the sheer size of the financial flows that the industrial world could generate, relative to the normal size of flows of developing countries. The swift entry, and even swifter exit, of such massive flows made clear for all to see the havoc that can be unleashed on small and fragile financial systems that are open to such tidal waves of finance. Despite the commitment of many international agencies to the complete liberalisation of capital markets right up to (and beyond) the hour of Asia's crisis, the same agencies now say that they can see some virtues in certain types of capital controls.

At last, then, a more realistic evaluation of the limits of unrestricted capitalism is evident. The leaders of Asia have told the Conference of their perception of the increased volatility and systemic instability of international finance. The Prime Minister, the Honourable Mahathir bin Mohamad of Malaysia and President Abdurrahman Wahid of Indonesia, were extremely forceful and persuasive, almost dramatic, at times touching, in their personal accounts of the ordeals endured by their peoples. It certainly was one of the high points of the Conference. Their message is that neither can be effectively managed by means of the existing financial architecture. Its further reform is an urgent priority, and it should address the more substantive aspects of the problem.

As Yilmaz Akyuz, Head of the Macro-Economic and Development Policies Programme of UNCTAD, said at the Host Country event on "Causes and Sources of the Asian Financial Crisis", the crisis has shown that "when policies falter in managing integration and regulating capital flows, there is no limit to the damage that international finance can inflict on an economy. It is true that control and regulation over such flows may reduce some of the benefits of participating in global markets. However, until systemic instability and risks are adequately dealt with through global action (...) the task of preventing such crises falls on governments in developing countries."

"Globalisation is, at least in part, a work of deliberate construction."

Positive processes of integration into the world economy are the goal. This has never changed. However, the liberalisation measures that are necessary to this end must be phased in a prudent and orderly manner. They must take account of specific local circumstances, they must be complemented by appropriate domestic policies and accompanied by institution- and capacity-building. Only then can they hope to succeed.

Globalisation is *not* an unstoppable change sweeping inevitably across the face of the world. It is, at least in part, a work of deliberate construction, that has consisted so far of a number of regional integration projects, in Europe and Latin America, in addition to the emergence of the financial markets of Asia. As was stressed by President Abdelaziz Bouteflika, President of the Republic of Algeria and current Chairman of the Organisation of African Unity, "the developing countries, representing the sweeping majority of mankind, are excluded from the process of consultation and collective decision-making... A new map of the world is being drawn, from where a whole continent, Africa, is merely erased".

These economies remain marginal because of their very narrow export bases in primary commodities. In the short run, they are adversely affected by systemic financial crises only indirectly, as the price levels of primary commodities fall with the deflation of world demand. Their longer-run development is jeopardised by the secular fall in the terms of trade of commodities *vis-à-vis* manufactures. The existence of a secular downward trend in the terms of trade for commodity producers has been denied long after the UNCTAD's first Secretary-General Dr Raul Prebisch , drew attention to it. In recent years, by contrast, this fact has at last been generally accepted.

As we prepare for the UN Conference on the Least Developed Countries, we must all do more to develop practical assistance measures to address this problem. Export diversification is an important component of any solution, but this in turn depends on relaxing the constraints on supply capacity, including investment in infrastructure and human capital formation. The representatives of governments have frequently expressed at this Conference the need for appropriate external support for these and similar measures to support the long-run development of the least developed countries. In this context, I can assure the Conference that the UNCTAD secretariat will itself renew and strengthen its efforts to this end.

My third example of the belated recognition of inconvenient facts concerns the question of income distribution and absolute poverty. Throughout the 1980s, the item "poverty reduction" was entirely off the official international agenda. The excuse was that only once growth was achieved could matters of redistribution be addressed. To reverse the sequence and begin redistribution before growth was a naive an impractical suggestion, we were assured.

In 1990, nevertheless, poverty was chosen as the subject for the World Bank *World Development Report*. When Mr. Wolfensohn became President, he declared that the reduction of poverty was the Bank's "over-riding objective". Now, at this Conference, we had the pleasure of hearing Mr. Michel Camdessus, the outgoing Managing Director of the International Monetary Fund, declare that "there is a mutually reinforcing relationship between . . . growth and the reduction of poverty and inequality . . .".

This is fully in line with the views of Professor Frances Stewart, as given at the Round Table of Eminent Economists. She quoted numerous studies to the effect that a more equal income distribution is associated with faster growth. The reasons for this are both political and economic in nature. Politically, regimes that sustain or actively create inequality tend to rely on policies that will put the brakes on economic growth. Economically, reducing inequality has a variety of positive economic effects, such as reducing the fertility of populations, widening the market, and raising the productivity of labour. Our instincts of solidarity are not arbitrary, but well grounded in reason.

I have argued that, while we have observed a convergence of opinion regarding the policies of economic liberalism, simultaneously we have witnessed a frank official acknowledgement of the key unsolved problems of the capitalist economic order. These are its proneness to financial crisis, its economic undermining of peasant production and its tendency to neglect the problem of poverty. All of these problems especially affect developing countries, and their resolution will not come about naturally, but only with selective and intelligent forms of government action.

The convergence of the last decade has come about by movement from both ends of the ideological spectrum. What does this imply? To me, it suggests that the period from 1914 to 1990 was indeed, as it has been called by the historian Eric Hobsbawm, "the age of extremes". Since 1990, the world has been learning to live without the extreme policies of the political Left *and* without the extreme ideology of the political Right. It is almost as if society had to wait for the inadequate policies of state socialism to be discredited *before* it could permit itself to rediscover the enduring problems of capitalism that those policies were supposed to be able to solve.

"While we have observed a convergence of opinion regarding the policies of economic liberalism, simultaneously we have witnessed a frank official acknowledgement of the key unsolved problems of the capitalist economic order."

In my view, this dual movement of ideas reveals a world recovering its sense of moral values, and this is a credible reason for hope. We are now increasingly aware that both governments and markets require a moral basis for their proper functioning. Markets cannot operate when they are dominated by the behaviour of opportunists, inside traders or players who freely break their contracts. Governments cannot operate as they should when dominated by the behaviour of the corrupt and greedy. And development itself is impossible unless both markets and governments do function properly, that is, working together in partnership. Many aspects of the so-called "failure of development" during the last fifty years can be readily explained, once we have these three precepts in mind.

Economies do not develop just because they exist. Economic development has been historically exceptional, and not a general rule. It does not happen automatically in response to the fact that a country has fertile land or large deposits of mineral resources. It is more likely to happen where elaborate systems of human cooperation have evolved. Markets and governments are both the institutional embodiment of this cooperation. The good functioning of all social institutions rests, in turn, not only on habits of personal trust, but also on habits of general and impersonal reciprocity of behaviour. These habits are reinforced by our religious beliefs, whatever the religion that guides us.

I could add to the six areas of consensus that I have already discussed by mentioning the need to make the best use of the changing opportunities for technological progress, and the importance of mobilising financial resources for development. Everyone would agree with our eminent experts Dr. Perez and Dr. Botchwey about the centrality of these two issues.

But, rather than formalising a new consensus on economic policy in a list with a fixed number of key points, I believe that it is more important to urge that extremism in economic policy be abandoned by all sides. Let us finally put away those doctrines of economic policy that, as a matter of fact, were never economic in origin at all, but created in the heat of a geopolitical conflict that is now, mercifully, concluded.

> *"Rather than formalising a new consensus on economic policy in a list with a fixed number of key points, I believe that it is more important to urge that extremism in economic policy be abandoned by all sides."*

As for the issues of economic policy that remain, we should avoid any forced unanimity. Unless there is free scope for the exchange of economic ideas, for criticism and counter-criticism, our economic understanding will not make any further progress. We should not lose sight also of the inherent limits of convergence and even of consensus. Even when we agree on basic principles, we may often differ on how to apply these principles to concrete situations which will not always be interpreted in the same way by all of us. Economists still disagree about the causes of the Asian crisis and about the remedies employed to end it. Likewise, economic historians continue to argue about the causes of the Great Depression and what finally put an end to it.

As we look to the future, let us not forget the wise words spoken here by the Indian Minister of Commerce and Industry, Mr. Murasoli Maran. The end of socialism does not silence the cry of the poor, and out of the pain of poverty must be born new dreams of justice –a new world economic order.

Today I want to insist that the building of an international community that will respect the aspirations of all its members for sustainable development must rest on the same moral foundation as does sustainable development itself. The fundamental idea is once again that of generalised reciprocity.

However, as Raul Prebisch declared when UNCTAD was established in 1964, the reciprocity of international economic relations must be real. It cannot be merely conventional, it cannot be formal only. It cannot be based on a nominal equality of countries that is belied in all the practices of negotiation, decision-making and dispute settlement. Precisely because, so far, global integration has affected only a dozen developing countries, the economic world is still divided. In such a world, real reciprocity means taking account of the underlying asymmetry of economic structures. Real reciprocity still has to be constructed. It will be the new international order that so many nations in this Conference have demanded. What are they asking for? Three things, above all:

1) They want the massive barriers to be dismantled in relation to trade in agriculture, textiles and clothing and in the areas where tariff peaks and escalation still prevail, even after the implementation of the Uruguay Round Agreements. Although greater access to industrial countries's markets will not solve the problems of the least developed countries, it is crucial to securing the benefits of an open global trading system for the more advanced developing countries.
2) They want recognition for their efforts in promoting regional economic solidarity. Provided that these are in the form of "open regionalism", they can strengthen the move towards positive global economic integration.
3) They want existing international economic institutions to evolve so that they are capable of bridging the interests of both developed and developing countries. As the NGOs have emphasised, such institutions must be more pluralistic and participatory than they are today.

In the aftermath of the WTO Ministerial Meeting in Seattle, the prospects for progress in these three directions are at best mixed. This Conference has provided the opportunity for a wide-ranging exchange of views. In my view, it has been instrumental in creating an atmosphere of greater mutual understanding on the complexities of the globalisation process. But much remains to be done in translating this into practical moves for institutional change at the international level.

The entire international community must see this as its goal in the four years ahead of us. UNCTAD's role in assisting the emergence of more effective international economic institutions must be a constructive one. UNCTAD must deploy for this purpose all of the three instruments at its command-research, policy advocacy and technical assistance. I look forward to the challenge that this will present.

"*This Conference has provided the opportunity for a wide-ranging exchange of views. In my view, it has been instrumental in creating an atmosphere of greater mutual understanding on the complexities of the globalisation process.*"

UNCTAD X: Dialogue, Consensus and Cooperation
This article analyzes UNCTAD's role and the way it has evolved during recent years, as well as the international context in which this change has taken place. It also points out that one of UNCTAD's major strengths is that it is a deliberating rather than negotiating forum. This explains the success of its tenth conference. Finally, the author reviews the tasks to be undertaken during the next four years to continue with UNCTAD's major institutional role to provide support to its member states in the areas of trade and development.

UNCTAD X: diálogo, consenso y cooperación
En el siguiente artículo se hace, en primer lugar, un análisis del papel de la UNCTAD y la transformación que ha registrado en los últimos años así como del contexto internacional en que ha tenido lugar este cambio. En segundo término, explica cómo el hecho de ser un foro de deliberación y no de negociación se convirtió en su principal fortaleza para alcanzar los resultados exitosos de su décima conferencia. Y por último, refiere las tareas a realizar en los próximos cuatro años en la continuación de su principal misión institucional como lo es apoyar a sus Estados miembros en los temas del comercio y el desarrollo.

CNUCED X: dialogue, consensus et coopération
L'article ci-après débute par une analyse du rôle de la CNUCED et de la transformation qu'elle a subie ces dernières années ainsi que du contexte international dans lequel ce changement s'est produit. Expliquant que sa force réside dans le fait qu'elle constitue une tribune de délibération et non de négociation, d'où le succès de sa Dixième Conférence, il se réfère ensuite aux tâches qu'elle doit accomplir au cours des quatre prochaines années pour poursuivre ce qui constitue l'essentiel de sa mission institutionnelle : fournir un appui à ses Etats membres pour toutes les questions afférentes au commerce et au développement.

UNCTAD X: Diálogo, consenso e cooperação
Neste artigo se analisa, inicialmente, o papel da UNCTAD e sua transformação nos últimos anos, bem como o contexto internacional em que essas transformações foram efetuadas. Em segundo lugar, expõe-se o fato de que por ser um foro de deliberação e não de negociação tenha se convertido na sua principal fortaleza para atingir os excelentes resultados emanados da X Conferência. Finalmente, refere-se às tarefas a serem realizadas nos próximos quatro anos continuando sua principal missão institucional que é a de apoiar seus Estados membros nos temas de comércio e de desenvolvimento.

UNCTAD X: Dialogue, Consensus and Cooperation

→ **Manuela Tortora**[1]
Coordinator, Trade Diplomacy Program, UNCTAD.

"In short, international economic governance is needed".

Pascal Lamy[2]

Introduction

Only ten years ago UNCTAD´s role –and even its survival– was one of the most controversial issues on the stage of international economic fora. Indeed, beginning in the early 1980's, when the failure of the North-South dialogue became apparent, UNCTAD entered a debilitating phase and began to be questioned even by several developing countries, its main supporters. In contrast, other multilateral economic fora began to enjoy a more prominent position. Such was the case of international financial institutions (which played a key role in the debt crisis, in economic liberalization and in structural adjustment programs) and, following the Uruguay Round launched in 1986, of GATT. Because of its identification with the North-South controversy and due to the fact that UNCTAD is not a negotiating but a purely deliberating forum, the organization faced a more than a decade-long crisis, a "lost" decade as far as its political clout was concerned.

As its Secretary General, Ambassador Rubens Ricupero, has pointed out, in less than ten years UNCTAD "reinvented itself". The UNCTAD IX meeting, held in Midrand, South Africa, in 1996 and the recent UNCTAD X[3], held in Bangkok last February, have defined and strengthened the terms of such "reinvention" as far as its political message and institutional functions are concerned.

Beyond the media reports on the results of UNCTAD X and the contents of official documents, it is useful to reflect on the meaning and implications of this transformation.

I. How the Bangkok Consensus Was Achieved

"We came to Bangkok to deliberate on development strategies in an increasingly interdependent world, and on how to make globalization an effective instrument for development". The final declaration adopted by the 111 Ministers and the 190 delegations from UNCTAD Member States begins with what may appear as a platitude, yet this sentence summarizes both UNCTAD's field of action and nature (deliberation) and its objective and main message (development within globalization).

The political foundations of the success of UNCTAD X rest on those two factors whose full value can only be properly ascertained when one considers the number of negative events that took place before the Bangkok Conference:

- The financial crisis that began in 1997 in the Asian countries revealed the vulnerability of the most successful developing economies as well as the inefficacy of international mechanisms to deal with this type of emergencies and contagion effect. The crisis shifted the attention from economic recovery measures to the development strategies needed in view of the unprecedented level of financial interdependency.
- The failure of the OECD negotiations on the Multilateral Investment Agreement (MIA) acquired symbolic importance for many NGOs and the media. Their criticism of the negotiations demonstrated the extent of their power within the international arena.
- The proliferation of regional and sub-regional fora, agreements and arrangements sends a clear message to world wide organizations (or those, like the WTO, which aspire to be such) by demonstrating that they are capable to develop their own policies and norms which address the needs of the geographical groups they represent much better than those devised within multilateral organizations.
- But it is, above all, the failure of the WTO Ministerial Meeting in Seattle which causes a tense and controversial climate within the world of multilateral economic organizations (particularly in Geneva), hampering any type of negotiation. Add to these developments the long and difficult election of WTO's Director General and a preparatory process marred by two obstacles: a text full of brackets[4] and a level of enthusiasm to launch a "Millenium Round" similar to that one feels "to keep an appointment with the dentist"[5].

With these types of results, we could say that for the international organizations in charge of negotiating world trade, financial and monetary policies, the last century ended on a sour note.

It is a paradox that as economic interdependence intensifies spurred by globalization, the multilateral cooperation mechanisms that should accompany such interdependence do not increase accordingly. Nor is a favorable environment conducive to dialogue and to the coordination of positions needed to begin negotiations created. It is the responsibility of international deliberating fora to reverse this tendency and to work towards the preparation of negotiations that may produce results favorable to all countries.

Two extreme scenarios could be envisioned a few weeks before the Bangkok Conference (which was held only two and a half months after Seattle): on the one hand, a pessimistic scenario in which the prevailing negative climate would affect the multilateral dialogue thus leaving UNCTAD without relevant mandates for the next four years. On the other hand, an optimistic scenario characterized by the political will to "compensate" somewhat for previous multilateral failures by sending out positive signals. In other words, Seattle could "contaminate" Bangkok, as in fact it did, but in the constructive way envisioned in the second scenario.

> "It is a paradox that as economic interdependence intensifies spurred by globalization, the multilateral cooperation mechanisms that should accompany such interdependence do not increase accordingly."

The Bangkok meeting was constructive not only thanks to UNCTAD's intensive and successful political maneuvering prior to the meeting –to a great extent due to the personality of its Secretary General– but also to variables pertaining to UNCTAD itself which on this occasion became its comparative advantages:

- First of all, the fact that UNCTAD is not a negotiating but a deliberating body allowed for a more relaxed climate. Obviously the merely political implications of decisions adopted within the UNCTAD cannot compare with the legal and economic implications of the agreements negotiated within the WTO or the financial operations defined within the IMF and the World Bank. Thus, UNCTAD´s uncontroversial nature allowed for a transparent and participatory climate conspicuously absent in Seattle.
- The recent developments in Seattle turned out to benefit the UNCTAD meeting[6] because diplomats in Geneva went out of their way to avoid producing an unmanageable text. The draft proposals adopted during UNCTAD X's preparatory phase arrived in Bangkok with the least number of brackets in the history of all previous UNCTAD meetings[7].
- Traditionally, UNCTAD has enjoyed a positive image at the level of public opinion and with many NGOs dedicated to development cooperation. The few demonstrators who gathered near the Bangkok Conference Center did not confuse UNCTAD with the WTO[8].
- UNCTAD's agenda (and its reason for being) is similar yet at the same time sufficiently different from the agenda of the WTO and of other international economic organizations as to

insure a clear differentiation between their messages. All of UNCTAD's activities center on development from an integrated trade, monetary and financial perspective. The Bangkok meeting offered an opportunity to reflect on the meaning of development within the context of globalization and on the actions needed at the multilateral level. Next year's organization of the conference on less developed countries was an additional element that helped define the issue of development[9].

– The presence in Bangkok of the heads of the main multilateral organizations[10] (and of several regional organizations) sent a clear signal of complementarity and inter-institutional cooperation at the highest level[11].
– The organization and structure of UNCTAD X were successful in making a break with traditional arrangements. Since the main challenge was not the negotiation of a text but rather the establishment of a dialogue on the issue of development, the Bangkok Conference could diversify its modalities and organize several simultaneous debating fora on different issues and with the participation of different actors[12].
– Before and during the Bangkok Conference intensive and positive contact was established with the media and representatives of the "civil society", thus fostering and supporting UNCTAD's image as a participatory and transparent multilateral forum.

> "*The common understanding achieved in Bangkok did not imply the development of new paradigms, but the ability to openly discuss national and international economic policies in the context of globalization and its impact on development.*"

Such comparative advantages allowed, in the end, for UNCTAD's political framework and role for the next four years to be defined. Nevertheless, it would be a mistake to believe that great changes in the field of ideas took place in Bangkok. Rather, points-of-view, often far diverging, were exchanged and that, without controversy. What was achieved was above all a propitious environment in which to develop a dialogue and formulate pre-negotiating positions[13].

The common understanding achieved in Bangkok did not imply the development of new paradigms –which would have far exceeded UNCTAD X's goals– but the ability to openly discuss national and international economic policies in the context of globalization and its impact on development. As UNCTAD's Secretary General stated at the closing session of the Conference and in reference to the 'Washington Consensus', "it would be tempting now to announce the arrival of the 'Bangkok Consensus' and to hand you a different set of twelve points. I am tempted, but the fate of the previous consensus suggests to me that to do so would be unwise. Consensuses self-destruct (...) Instead of trying to freeze the ongoing debate into a static mold labeled

Bangkok Consensus, I will try to capture the dynamic currents starting from opposite ends and gradually converging towards some common ground. I want to try to define the ways in which the spectrum of opinion has in fact narrowed in recent years, not just among academic experts but also among national leaders and those at the head of international organizations".

The key ideas contained in the Report of the Secretary General to UNCTAD X, as well as in two documents adopted by the Conference (the Ministerial Declaration and the Plan of Action), reveal the boundaries of the main positions on the thorny issue of globalization-with-development. But they also show, as in a panoramic photograph, the extent of the international economic agenda and, in particular, of the mandates assigned to UNCTAD.

II The Principles and the Mandates Adopted in Bangkok

The central message of the UNCTAD Secretary General's report, which served as a basis for the debates in Bangkok, could be summarized as follows: to preserve its legitimacy, the international economic system must improve what it offers to the poorest countries and the poorest sectors of the world population. Macroeconomic achievements –as relates to price stability and fiscal equilibria– have not been accompanied by improved income distribution. Nor have viable solutions been found for the increasing asymmetries between industrialized and developing countries. Forecasts about more growth and development, less poverty, more employment and more equity continue to be overly optimistic and foster expectations beyond reality.

One of the basic issues addressed in the report has to do with how to evaluate developing countries' insertion into the global economy when drawing a balance of past experience or when formulating strategies for the future. The most important goal lies in the quality of such insertion, rather than the level and rate of growth. Indeed, it has been proven that unwise and hasty trade and financial policies have destabilizing effects and increase developing countries' vulnerability. Key to achieve a harmonious and stable insertion are factors such as productivity, diversification of national production and technology inputs.

"*It has been proven that unwise and hasty trade and financial policies have destabilizing effects and increase developing countries' vulnerability.*"

As a corollary, the search for a qualitative insertion by developing countries into the international economic system implies acknowledging that the globalization process does not automatically insure equal footing with developed countries. In other words, from the standpoint of its benefits and how they are shared, it must be recognized that globalization can foster important desequilibria. Efforts must then be focused on such measures as may allow for the attainment of more equity in development.

Without pretending to formulate new paradigms, the report presents a diagnosis of the impact of globalization on development. Based on this, UNCTAD's Secretariat presents a number of guidelines which, in its opinion, should assist in the formulation of actions at both the national and international levels. The ideas and the evaluation contained in the Report of the Secretary General served, as a whole, as a basis for the preparation of the two texts adopted by UNCTAD X, that is to say, the Ministerial Declaration and the Plan of Action. As expressed by UNCTAD's Secretary General, both texts indicate "the limits of what is feasible to put on paper at this time" as regards both policy guidelines and the tasks to be entrusted to UNCTAD for its endeavors in support of developing countries.

An interesting exercise in comparative analysis would consist in comparing the concepts and the language of the Secretary General's report with that of the mandates entrusted to the Secretariat, as contained in the texts adopted by the Member States in Bangkok. Some of the more noteworthy coincidences, as regards both form and substance, can be summarized as follows:

- UNCTAD's primary role as a forum for debate, the exchange of experiences and consensus building, development issues'analysis and technical cooperation was recognized[14].
- UNCTAD is entrusted with special and priority initiatives for the benefit of Least Developed Countries in all areas of development policy[15].
- Asymmetries in the implementation of the Uruguay Round of Multilateral Trade Negotiations are recognized and the impact of such agreements on development is to be kept track of. The tasks of the Secretariat in this field should support the necessary consensus building in preparation for negotiations.
- In this context, it is important that transition periods are made available to developing countries in order to allow them to gradually adapt to the new trade disciplines and to the changes such disciplines imply in their national policies and legislation.
- UNCTAD is to continue its cooperation initiatives in the fields of foreign investment policies, the promotion of technology capabilities and support to small and medium enterprises.
- The practices applied by multinational firms with a dominant market position can hinder competition. The importance of

UNCTAD's long experience in competition rules and policies formulation was again reiterated in Bangkok.

- Subsidies applied by some developed countries can have negative effects for growth in developing economies.
- Antidumping and countervailing measures adopted by industrialized countries can have an impact on those sectors in which developing countries are more competitive.
- It is necessary to intensify efforts geared towards supply diversification by developing countries.
- Sanitary, phytosanitary, technical and environmental measures may represent obstacles to exports from developing countries.
- The benefits of globalization must be shared among and between countries, as well as within each of them.
- The development strategies fostered by international financial institutions hamper the development process.
- Existing international mechanisms are inadequate to handle financial crises and their 'contagion effects'; the Secretariat should, in this regard, carry out studies in relation to the 'new financial architecture'.
- Other mandates widen UNCTAD's scope of action as regards support to capacity building in issues central to the development process.

Last but not least, two mandates of particular importance in the field of international trade should be underlined. First, a specific and clear mandate was included in reference to regional integration processes among developing countries, entrusting the Secretariat with providing the necessary cooperation. Secondly, the Member States expressed their support to the Secretariat's work on the "positive agenda" aimed at providing developing countries with the analytical tools needed to formulate proposals during the multilateral trade negotiations and to study the implications of proposals by industrialized countries.

Regarding the "positive agenda", several mandates request UNCTAD's Secretariat to continue carrying out analytical studies, granting technical cooperation and providing support for negotiations on issues such as market access, agriculture and services and electronic trade, among others. UNCTAD's support to developing countries and to economies in transition which are in the process of accession to the WTO complements these activities.

III. The Short Term Tasks

The mandates approved by UNCTAD X do not imply substantial changes in the working of the Secretariat since the restructuring carried out four years ago following UNCTAD IX is still effective and valid. Nevertheless, in the carrying out of Bangkok's Plan of Action UNCTAD faces some significant challenges as far as its political role as a forum concerned with development issues is concerned as well as for the technical work requested of its Secretariat, which relies on limited human and financial resources.

In the coming months, as was the case during the preparatory phase of the WTO Ministerial Conference in Seattle, the activities of UNCTAD's Secretariat will focus mostly on supporting developing countries' participation in the WTO negotiations on agriculture and services, which have already began. Specifically, the analytical work carried out in 1999 will have to be revised, updated and deepened so as to contribute in a useful way to the positive agenda. It will also be necessary to expand initiatives aimed at preparing trade negotiators, given the growing technical and political complexity of the issues discussed within the WTO.

In fact, the agricultural trade agenda has expanded to include new and sophisticated issues of multiple ramifications, such as the issue of genetically altered organisms, which requires knowledge of biotechnology and technical and phytosanitary norms. Similarly, the revision of the Uruguay Round Agreement on Trade in Services will probably require the discussion of sensitive issues such as the movement of people for professional services or the subsidies (which are usually difficult to identify) enjoyed by industrialized countries' enterprises in support of their service exports.

Given such negotiating challenges, UNCTAD represents an ideal multilateral forum in which each party's position may be known and understood, similar positions and possible allies may be identified and the analysis needed to present viable, sustainable and equitable proposals for all countries may be carried out.

In other words, in the coming months UNCTAD member countries will have the opportunity to put into practice the lessons learned in Seattle during the WTO Ministerial Conference, whose pre-negotiations process was not able to consolidate the dialogue and produce the consensus needed before entering discussions on the sensitive issues included in the agenda on agriculture and services.

UNCTAD's new mandate regarding support to regional processes must be seen as an additional opportunity to reach a pre-negotiations consensus and to formulate, wherever possible and convenient, joint positions that may strengthen the participation of developing countries in the multilateral arena.

Besides the issues referring to the follow up of the WTO negotiations, UNCTAD's Secretariat will dedicate a large portion of its resources to the preparation of the Conference on Least Developed Countries, to be held in April of the year 2001. This is, a priori, a less controversial issue –and thus one on which consensus may be reached with greater ease– than that of trade negotiations within the WTO. Nevertheless, that conference poses a no lesser challenge since it will attempt to reach a consensus on the definition of concepts and the adoption of actions targeted to less developed countries' specific needs. Many of the guidelines discussed in Bangkok regarding developing countries' insertion into the process of globalization will be discussed once again. The dialogue will be useful for all UNCTAD member countries and to strengthen the organization's role in the sphere of economic multilateralism.

Similarly, the inclusion within the Bangkok Plan of Action of actions regarding financial and monetary issues opens new doors to the exchange of ideas and experiences in a forum other than the international financial institutions- the International Monetary Fund and the World Bank.

Given the scope of these mandates and the international framework within which they occur, within the short term UNCTAD's role is destined to grow very rapidly. It will be up to member countries to support and stimulate that potential and to use it in a constructive way in the different international economic fora.

Today more than ever, for both industrialized and developing countries, the cost of failed economic negotiations is high and risky. Multilateralism needs to show good results to be credible and sustainable. The dialogue and the consensus within reach in UNCTAD are key factors to achieve this. They might even also improve the governability of the international economic system.

“Today more than ever, for both industrialized and developing countries, the cost of failed economic negotiations is high and risky.”

Notes

1. The opinions expressed in this article are strictly the author's own and do not reflect UNCTAD´s official position

2. Trade Commissioner of the European Commission. Conference at the European Institute, Washington, February 17, 2000: "Post-Seattle: What Next?" European Commission Web Site.

3. The United Nations Conference on Trade and Development, UNCTAD, meets every four years. On this occasion, the Member States approve the UNCTAD Secretariat's work program.

4. According to some delegates' estimates, the draft Ministerial Declaration reached Seattle, after several months of negotiations, with some 1,200 brackets.

5. The expression was used several times by the Secretary General of UNCTAD.

6. The Minister for Cooperation of France, speaking at the Ministerial Roundtable, indicated that "Bangkok's success is to be measured in comparison to Seattle's failure".

7. A sort of "bracket syndrome" overtook the negotiations preceding Bangkok and the number of "sensitive" paragraphs, which caused difficulties, was small.

8. The peaceful and relatively small demonstrations that took place in Bangkok were in no way comparable to the violence registered in Seattle. The only notorious incident was that of the cake thrown at the face of the outgoing IMF Managing Director by a member of the group "Pastry Makers without Borders".

9. A Conference to be held within UNCTAD's framework.

10. Such as, in particular, the WTO, the World Bank, the IMF, ILO, UNDP and others, as well as the UN Secretary General. It is not usual for an Organization to offer the heads of other international agencies as open a tribune as UNCTAD X did. Normally, as for example happened during Seattle's WTO meeting, other organizations are invited as observers and just present a short statement in the Plenary. In Bangkok, they had several opportunities, in addition to the Plenary, to present their policies to the delegations and to public opinion.

11. Parallel events, such as roundtables, meetings with distinguished economists, NGO's, businessmen, Ministers and Heads of State, were organized in which different international and regional issues were taken up.

12. Nevertheless, it remains to be seen how far this climate favorable to dialogue can be 'transferred' to and made use of in a negotiating forum such as the WTO, where negotiations on agriculture and services, which are part of the 'built-in agenda' have already began.

13. As regards international trade, Mike Moore. WTO's Director General, was one of the participants who emphasized the most the importance of UNCTAD as a "pre and post negotiating forum".

14. Nevertheless, a commitment to grant duty and restrictions-free access to Least Developed Country exports was not achieved in Bangkok.

From Unilateral to Shared Globalization

The Bangkok meeting revealed the existence of areas of shared understanding between governments, international organizations' representatives and academics which make it possible to progress from a 'unilateral' to a 'shared' globalization process. In order for the Spirit of Bangkok to translate into real actions, specific agreements must be reached and complied with by all interested parties. Otherwise, argues the author, the strides made in Thailand's capital will lack credibility and thus fail to affect the management of international economic affairs.

De la globalización unilateral a la globalización compartida

En la cita de Bangkok se identificaron áreas de convergencia entre gobiernos, representantes de organismos multilaterales y académicos que hace posible pensar que se puede lograr un avance desde un enfoque "unilateral" a uno "compartido" del proceso de globalización. Pero para que el "Espíritu de Bangkok" pueda materializarse hace la falta la adopción de acuerdos concretos y el compromiso de cumplirlos por parte de todos los actores involucrados. De lo contrario, asegura el autor del siguiente artículo, los avances logrados en la capital tailandesa no tendrán la credibilidad que requieren para incidir en el manejo de los asuntos económicos internacionales, credibilidad que cada vez más exige la sociedad civil.

De la mondialisation unilatérale à la mondialisation partagée

La réunion de Bangkok a permis d'identifier des domaines de convergence entre gouvernants, représentants d'organismes multilatéraux et universitaires, qui laissent entrevoir la possibilité d'une évolution permettant de passer d'une approche «unilatérales» du processus de mondialisation à une approche « partagée ». Mais la matérialisation de l'esprit de Bangkok suppose l'adoption d'accords concrets que les acteurs concernés s'engageront à respecter. Sinon, affirme l'auteur de cet article, les progrès réalisés dans la capitale thaïlandaise n'auront pas la crédibilité nécessaire pour influer sur la conduite des affaires économiques internationales, or la société civile l'exige de plus en plus.

Da globalização unilateral à globalização compartilhada

Na reunião de Bangkok foram identificadas áreas de convergência entre governos, representantes de organismos multilaterais e acadêmicos, o que nos permitirá um avanço partindo de um enfoque "unilateral" para um "compartilhado" do processo de globalização. No entanto, para que o "Espírito de Bangkok" possa materializar-se, torna-se necessário a adoção de acordos concretos e o compromisso de cumprimento dos mesmos por parte de todos os atores envolvidos. Caso contrário, afirma o autor deste artigo, os progressos alcançados na capital tailandesa não terão a credibilidade requerida para incidir no manejo dos assuntos econômicos internacionais, credibilidade que a sociedade civil exige cada vez mais.

From Unilateral to Shared Globalization

Eduardo Mayobre
Director of Economic Relations, SELA's Permanent Secretariar

I. Promeses

The results of the UNCTAD X meeting, held in Thailand last February, have given rise to talk of a "spirit of Bangkok" which might underline international economic relations during the coming years. This would be embodied in a new cooperating attitude between the different actors on the international economic stage and in a new, more or less shared, understanding of the problems that must be faced.

1. UNCTAD X

Given the way UNCTAD X developed and the conclusions reached at the meeting, this new spirit may actually be more than mere rhetoric. The representatives from 180 countries members of that organization, a considerable number of Heads of State and Government, the highest officials of multilateral organizations, academics and speakers from different groups of society, all agreed on the need to manage international economic relations within an environment of cohabitation and mutual respect, avoiding the lack of understanding and flexibility that has prevailed in the recent past.

Equally, and most importantly, they acknowledged the importance of problems previously excluded from or minimized in the international agenda, such as poverty, the distribution of wealth, the asymmetries and perverse effects of globalization on important economic and social processes. The need to promote international practices and norms conducive to greater stability and larger and freer economic exchanges was also generally acknowledged.

This approximation of positions could provide a common basis and starting point in the coming multilateral negotiations or any negotiation that may be needed as a result of the globalization process. Should this be the case, concepts and issues of concern, such as the struggle against poverty, that so far have been dealt with in general terms or have been used as mere publicity tools, would be attended to in practical terms. On the other hand, it could contribute to a more effective and sincere discussion on the reform of international financial institutions.

The Spirit of Bangkok owes its existence partly to the "Ghost of Seattle". The Ministerial Meeting of the World Trade Organization (WTO), held in Seattle in November 1999, had been convened to launch the multilateral trade negotiations referred to as "the Millenium Round". This, it was felt, would lead to the establishment of a new international economic order dominated by the free market doctrine, an integrated approach which shortly after the fall of the Berlin Wall came to be known as the Washington Consensus.

> *"The Spirit of Bangkok owes its existence partly to the 'Ghost of Seattle'."*

The Seattle meeting failed miserably and could not even produce a declaration explaining the reasons for such failure. Differences among the most powerful countries, protests by developing countries for their exclusion from key negotiations and street demonstrations by the most varied groups evidenced that circumstances were not ripe for the continuation of positions that during the nineties appeared unassailable and unstoppable.

The fear of new clashes and of a new failure in the conduct of international economic relations, as well as the threat of a possible stand still in international trade that could affect developing as well as developed countries –the so-called ghost of Seattle- led to a conciliatory climate during the first great intergovernmental conference of the XXI century, UNCTAD X. The nature of the meeting was conducive to such conciliatory tone. The conference did not negotiate binding issues but rather considered in a general manner the different issues affecting the development of the world economy.

The importance of the change in position manifested by participants at the meeting, particularly representatives from multilateral organizations and developed countries, is not lessened by the fact that UNCTAD is a non-negotiating (or merely deliberative) forum. The fact that they chose to evidence this new attitude at this Conference is in itself significant. Until recently, UNCTAD and the issues it deals with were considered irrelevant –and at times impertinent– by free market advocates and their representatives in governments, enterprises and institutions. To the point that the survival of the organization, perceived as belonging to developing countries, was at stake.

This prejudice against UNCTAD on the part of those who, until Seattle, felt themselves to represent the dominant trend explains also the lack of coverage the Conference received by the international media and the relatively low level of some of the delegations. Thus the success obtained by UNCTAD's Secretariat, under the leadership of the Brazilian Rubens Ricupero, is doubly noteworthy.

The Bangkok Declaration, adopted by acclamation by the countries members of UNCTAD as the Conference's final document, stated: "Our deliberations have reminded us of the enormity and the urgency of the challenge of translating broadly agreed concepts into effective action (...) the contribution of UNCTAD X and its preparatory process has been the achievement of open dialogue and frank exchanges of views. A large measure of agreement was possible in Bangkok on the shared moral commitment to a better and fairer world (...) The Conference has brought together development partners to propose practical and meaningful solutions. It has inspired reasons for hope in the possibility of creating a fairer and better world economic system, alleviating poverty, redressing imbalances and improving the protection of our environment (...) We must all now work together to turn hope into reality."

Among other considerations of the Bangkok Declaration the following should be pointed out: "Globalization also raises the risk of marginalization of countries, in particular the poorer countries, and the most vulnerable groups everywhere. Income gaps within and among countries remain wide, and the number of people living in poverty has increased. Asymmetries and imbalances in the international economy have intensified. Instability in the international financial system continues to be a serious problem and requires urgent attention."

More concretely, the Declaration "emphasizes commitment to a multilateral trading system that is fair, equitable and rules-based and that operates in a non-discriminatory and transparent manner and in a way that provides benefits for all countries, especially developing countries. This will involve, among other things, improving market access for goods and services of particular interest to developing countries, resolving issues relating to the implementation of the World Trade Organization (WTO) agreements, fully implementing special and differential treatment, facilitating accession to the WTO, and practical technical assistance." Moreover "a new round of multilateral trade negotiations should take account of the development dimension" and "the Conference emphasizes the role and contribution of regional integration in this process".

The generally cordial tone that prevailed in Bangkok can perhaps best be convened by reviewing the keynote speeches delivered by Michel Camdessus, Director General of the International Monetary Fund; James Wolfensohn, President of the World Bank; Juan Somavia, Director of the International Labor Office; Mike Moore, Director General of the World Trade

Organization; Enrique Iglesias, President of the Inter-American Development Bank; and Abdel Azíz Bouteflika, President of Algeria and of the Organization of African Unity.

Camdessus called for "concerted action to transform globalization into an affective instrument for development and one that addresses the major concern of our times, poverty". He urged countries to fulfill the commitments adopted at several United Nations conferences during the nineties to reduce by half by the year 2015, the number of people living in absolute poverty and to promote social objectives such as universal primary education, the struggle against hunger and gender discrimination, the reduction of infants' and mothers' mortality rates, reproductive health and the protection of the environment. To do this, he added, we need a strengthened multilateral system in which not only capital, but also investments and people may move freely and better contribute to universal progress.

Wolfenshon stated that "global peace is linked to greater social justice and reducing poverty must be a central objective for all of us". He added: "All of us (including the private sector and civil society) are actors in the development process, the time for conflicts of interest and approaches has passed and now we need to establish partnerships". He called attention to the interdependence of all aspects of development strategy-structural, human, institutional, environmental, economic and financial. Similarly, he stressed that "the challenge to us all is to harness the positive aspects of globalization...and to offset its less positive aspects".

Somavia explained that even though globalization is an irreversible process as far as scientific and technological process is concerned, in its economic and social aspects it is a human endeavor. However, he added, "It is by no means obvious how long the present model of globalization will continue if the fundamental social issues are not addressed". In this regard "There is much to be gained from making simultaneous progress in achieving economic growth, reducing inequality, improving socio-economic security, strengthening basic rights and democratic governance and developing sound institutions necessary for the efficient functioning of markets". To do this, me must overcome what he called a "casino economy".

Iglesias argued that Seattle was a warning sign to an international trading system that has not evolved with sufficient speed. Even after decades of multilateral trade liberalization industrialized countries still apply high levels of protection to key sectors, such as agriculture and textiles, in which developing countries enjoy comparative advantages. Regarding Latin

America and the Caribbean, he stated that it is necessary to design a new development paradigm that considers the reforms undertaken as a necessary but insufficient step in the preparation for globalization, social modernization and the building of foundations for sustained and equitable development and growth.

Moore defined "the new division of the world –the distinction between inclusion and marginalization– between those who are inside and those who are outside the modern, global economy". In it, "The challenge for all of us in these first years of the 21st century is to use trade, investment and the other tools available to us to promote economic growth, social development, poverty alleviation and productive investment in a way that can make a difference to the lives of the billions of people living in poverty in the world." He added: "A lot of energy has been misapplied lately to attacking globalization, a term which covers almost anything".

Bouteflika referred to the limitations inherent in a limited concept of globalization and the policy recommendations derived from it, which caused resistance and adverse reaction in diverse areas and sectors of the world, including many developing countries. In this regard, he said: "Developing countries, which represent the sweeping majority of mankind, are excluded from the process of consultation and collective decision making. A new map of the world is being drawn, from where a whole continent, Africa, is merely erased".

2. From the Washington Consensus to the Spirit of Bangkok

In his closing statement titled "From the Washington Consensus to the Spirit of Bangkok" the Secretary General of UNCTAD reviewed the different speeches delivered at the conference. The transition referred to in the title points to the contrast between the excluding, triumphant and imposing behavior that characterized the so-called Washington Consensus and the including, participative and open disposition apparent in Bangkok.

In this regard, Ricupero quoted the British Chancellor of the Exchequer, Gordon Brown, who said: "We need to move beyond the Washington Consensus, a creature of its time that narrowed our growth and employment objectives...The new consensus cannot be a Washington consensus, but as we have recognized in the poverty reduction strategies, countries must claim ownership and make it part of their national consensus." UNCTAD's Secretary General added "instead of trying to freeze the ongoing debate into a static mold labeled Bangkok

Consensus, I will strive to capture the dynamic currents starting from opposite ends and gradually converging towards some common ground". "We should avoid any forced unanimity. Unless there is free scope for the exchange of economic ideas, for criticism and counter criticism, our understanding will not make any further progress. We should not lose sight also of the inherent limits of convergence and even of consensus". For this reason, he explained that "rather than formalizing a new consensus on economic policy in a list with a fixed number of key points, I believe that it is more important to urge that extremism in economic policy be abandoned by all sides".

In this regard, he added: "Today I want to insist that the building of an international community that will respect the aspirations of all its members for sustainable development must rest on the same moral foundation as does sustainable development itself. The fundamental idea is once again that of generalized reciprocity. However, as Raul Prebisch declared when UNCTAD was established in 1964, the reciprocity of international economic relations must be real. It cannot be merely conventional; it cannot be formal only. It cannot be based on a nominal equality of countries that is belied in all practices of negotiation, decision-making and dispute settlement. Precisely because, so far, global integration has affected only a dozen developing countries, the economic world is still divided. In such a world, real reciprocity means taking account of the underlying asymmetry of economic structures. Real reciprocity still has to be constructed. It will be the new international order that so many nations in this Conference have demanded."

Among the things countries are clamoring for, Ricupero singled out three:

- The dismantling of the massive barriers in relation to trade in agriculture, textiles and clothing and in the areas where tariff peaks and escalation still prevail, even after the implementation of the Uruguay Round Agreements.
- Recognition for their efforts in promoting regional economic solidarity.
- International economic institutions must evolve so that they are capable of bridging the interests of both developed and developing countries.

Ricupero concluded by pointing out: "In my view, this Conference has been instrumental in creating an atmosphere of greater mutual understanding on the complexities of the globalization process. But a lot remains to be done in translating this into practical moves for institutional change at the international level. The entire international community must see this as its goal in the four years ahead of us. UNCTAD's role in assisting the emergence of more effective economic institutions must be a constructive one."

II. Aspirations and Fears

The Spirit of Bangkok heralds the possibility of making progress in international negotiations and agreements aimed at obtaining a world economic system beneficial to developing countries and useful to developed ones. A system with generally accepted clear and equitable rules, capable to moderate markets' instability and volatility and to undertake far-reaching programs in areas such as the struggle against poverty.

"The Spirit of Bangkok heralds the possibility of making progress in international negotiations and agreements aimed at obtaining a world economic system beneficial to developing countries and useful to developed ones."

The acknowledgment that globalization may have negative consequences, such as marginalization, and that it is possible to channeled it through actions that increase its positive aspects and limit the negative ones is in sharp contrast with the old claim of the followers of the Washington Consensus. They argued that globalization is an irreversible and predetermined process which countries either have to adapt to or join. This position obviously hampered all attempts of adopting measures aimed at channeling globalization towards the so-called economic and social "development dimension".

The promoters of the Washington Consensus had, until now, assumed the paternity and exclusivity of all that pertained to globalization. In so doing, however, they did not take into account that unilateral globalization is, practically, a contradiction in terms since globalization, by virtue of its very nature, is not nor should it be excluding: it englobes, it does not exclude.

The acknowledgment that globalization may be channeled and oriented does not necessarily imply an agreement on which actions to adopt nor a willingness to apply such actions. Because a specific ideological current has monopolized the idea of "globalization" during the last decade, the treatment of the real globalization phenomenon has been marred by inflexibility, prejudices and lack of understanding. It is not an easy task to overcome such difficulties. Unilateral globalization has created mechanisms and dogmas difficult to overcome. Nevertheless the fact that some of its more privileged actors are beginning to realize that a new, wider approach is needed could be seen as a starting point.

In order for the Spirit of Bangkok to be more than just a wave of mutual congratulations after a successful conference, credibility must be established. The unilateral approach to globalization that prevailed recently has caused resistance and resentment in both developing and developed countries. These have found an outlet in protests and organizations such as those unleashed in Seattle, Davos and, more recently, Washington, during the meetings of the International Monetary Fund and the World Bank.

Therefore, to progress from unilateral to shared globalization it is not enough to identify some areas of agreement between governments and participants in international organizations and meetings. We must also reach specific agreements, adopt decisions, and these must be seen as convenient by ample and diverse sectors of society which are hostile or doubt of the international community's capacity to channel the globalization process and introduce mechanisms that may, at least, moderate its negative aspects.

"To progress from unilateral to shared globalization it is not enough to identify some areas of agreement, we must also reach specific agreements."

In this regard, as Ricupero pointed out, it is fundamental that we allow for criticisms and counter criticisms. In other words, convergence must not mean the renouncing of aspirations, relinquishment of legitimate interests or abandonment of ideas and convictions.

1. A Common or a Positive Agenda?

One of the main contributions of UNCTAD's Secretariat during the preparation of the Bangkok Conference was promoting the idea of a "Positive Agenda" for developing countries in international negotiations and deliberations. This agenda would include proposals and negotiating positions reflecting their interests and aspirations in the belief that the dimension of development must be present in the international community's concerns, agreements and decisions.

The Positive Agenda concept was a direct result of the way international negotiations were unfolding in the mid 1990's. In these, the problems and concerns of industrialized countries prevailed. Proposals, agreements and disagreements on major economic issues were discussed in terms of interest to the most powerful. On the other hand, developing countries adopted a position of reaction to such debates. They simply accepted or rejected positions and conclusions but did not present their own positions and interests.

Under these circumstances, the contribution of developing countries to important issues that required examination and were brought under discussion by the very dynamics of the international economy –such as intellectual property and labor and environmental norms– tended to be limited. Even issues of direct interest to developing countries, such as conquering poverty or governability, were discussed in terms and fora in which developing countries had a limited say.

The existing mechanisms for discussion contributed to this situation. The so-called Group of Seven (G-7) had, increasingly, the last say and was the privileged forum for debate. Even in those institutions with an important representation of developing countries, parameters were established by reference to the G-7.

Given this situation, it became apparent that developing countries had to define their own problems, needs and aspirations and their positions in the ongoing international negotiations. Such definition had to go beyond the clarification of positions regarding proposals under discussion, usually sponsored by developed countries. Developing countries needed to develop their own proposals.

The fact that developing countries' institutions were experiencing a difficult moment during the nineties made this task even more difficult. The mechanisms and fora that had been created to develop and coordinate developing countries' positions had been weakened. This was due, partly, to the fragmentation caused by the different levels of economic performance among developing countries, partly to the deep geopolitical changes brought about by the end of the Cold War and, partly, to the growing unilateral character of the globalization process and ideology.

Faced with a lack of proposals to address their interests and situations, many developing countries opted for "escaping" towards globalization, rather than face it and prepare for the problems it raised. In other words, faced with obstacles in the management of their economies and the promotion of their social and economic development, they accepted without criticism the recipes imposed by the dogmas of unilateral globalization and the Washington Consensus. Even though such "escape" to globalization gave rise to some success stories, with time the limitations and risks posed by this course of action became increasingly apparent.

Faced with the absence of positions from developing countries UNCTAD promoted an exchange of ideas to establish the Positive Agenda of developing countries, making significant strides in that direction. Given the presumed imminence of the Millenium Round, most efforts centered on trade and trade related issues. However, because of the failed launching of the new round of trade negotiations and UNCTAD's increasing importance as a forum in which to discuss in a comprehensive manner the dimension of development in international economic relations, other issues, such as financing and investment, were granted priority in the Positive Agenda. In the document "Globalization with Development", prepared for the Latin American and Caribbean countries' Ministerial Meeting prior to UNCTAD X, SELA's Permanent Secretariat had pointed out that "The Positive Agenda must not just consider each international economic issue from the perspective of development, but rather it must envision them as part of an interrelated whole".[2]

In Bangkok the Positive Agenda did not play the leading role it had been expected to play. Rather, the debate centered on the search for areas of understanding between developed and developing countries. This must not be seen as a weakening of UNCTAD's and developing countries' position regarding the Agenda. On the contrary, the fact that special areas of interest to developing countries were identified helped to change developed countries' position. All participants at the Conference singled out many of the issue included in the Positive Agenda, particularly high officials from multilateral organizations, as main issues on which the Common Agenda should be based. The difficulties faced by the industrialized countries' agenda at the Seattle meeting and the acknowledgment of the need to consider international economic issues from a perspective of shared concepts and objectives contributed to this development.

From this perspective, the Common Agenda can be seen as a triumph of the Positive Agenda and a step forward. Indeed, the Common Agenda includes issues from the Positive Agenda of developing countries, such as the struggle against poverty, the need to pay attention to social problems and to avoid marginalization and other negative effects of globalization, equity, access to market for goods of special interest to developing countries, special and differential treatment and the need to avoid financial markets' volatility and its consequences.

However, perhaps it is too early to conclude that the incorporation of these issues, among others, into the Common Agenda eliminates the need to continue working on the Positive Agenda. So far, we have not progressed beyond their mere inclusion into the areas of interest for the international community and multilateral organizations. The importance these issues will be assigned and the way they shall be dealt with in future negotiations remain to be seen. The existence of a Positive Agenda continues to be fundamental for such negotiations.

Naturally, it would be highly desirable if progress on the Common Agenda were to relegate the Positive Agenda to a secondary role for developing countries as far as guiding their positions is concerned. For this to occur, the change in attitude demonstrated by developed countries in Bangkok would have to progress from declarations to deeds. That is, the Spirit of Bangkok would have to acquire permanence and consistency.

In order to determine whether a common agenda reconciling developing and developed countries' positive agendas is possible or whether it is inevitable that there will be two different, contrasting agendas, we need to ask whether not just the design but also the implementation of such common agenda is possible.

2. Fulfilling a Common Agenda

The Common Agenda does not exist yet. The general statements and the areas of convergence produced by the Spirit of Bangkok are yet to translate into issues to be dealt with in fora that may grant practical content to the conclusions reached. The international meetings that have taken place recently confirm the progress made in Bangkok, at least as far declarations go. However, in practical terms the concern remains whether institutional inertia or reactions from traditional interests will allow us to progress within the environment of mutual understanding that UNCTAD X attempted to promote.

In this regard, the creation in December 1999 –after Seattle but before Bangkok– of the so-called Group of Twenty (G-20) by the members of the G-7 and some larger developing countries the G-20 deem "systematically significant economies," is a negative sign. This Group's aim is to consider international economic issues as a whole and to formulate the basis for a "new international financial architecture". Its member countries' Ministers of Finance and Central Bank Governors integrate it.

The G-20 in itself restates a situation that was denounced as negative in Bangkok: the exclusion of the majority of developing countries from the debate and decision making processes concerning globalization's main issues. Thus, the G-20 fits the distinction between inclusion and marginalization mentioned by Mike Moore. As Ricupero stated, from an economic standpoint the world remains divided because global integration has reached only a dozen developing countries. To include these few developing countries into the global decision-making process leaving out the rest is to consolidate exclusion. It can hardly assist in the establishment and development of a Common Agenda.

Another negative signal can be found in the way the Highly Indebted Poor Countries Initiative, or HIPC, has been implemented and financed. In its June 1999 Cologne meeting, the G-7 reinforced the Initiative's goals and widened the range of its possible beneficiaries. Overall, such reinforcement received political support from developing countries' governments and from different sectors of civil society in developed and developing countries. Although criticism and concerns persisted in relation to the proposed operating modalities, the goal of providing the poorest countries with financial viability by way of debt alleviation and by redirecting resources thus liberated to the fight against poverty were largely shared.

Nevertheless, since then, and in particular since the April 2000 Spring Meetings of the Development Committee and the International Monetary and Finance Committee (previously known as the Interim Committee) of the World Bank and the International Monetary Fund, held in Washington, it became evident that steps taken to ensure the Initiative's financing were inadequate and that its implementation, in the case of several countries which had met or were about to meet in the near future its pre-requisites, was at risk. This could lead to an Initiative of more limited scope than agreed or to a partial implementation of it according to the flow of resources. It could thus lead to discrimination (exclusion) among beneficiaries on the basis of first-come first-served criteria, or other criteria, which in other contexts have been defined as "patronage".

During the above-mentioned meetings, the International Monetary and Finance Committee (IMFC) limited itself to "reaffirming the importance of full participation by all creditor countries in the HIPC". The Development Committee "just expressed its satisfaction with the contributions and resource commitments pledged by donor countries, including those announced since September, and called for such promises to become effective as soon as possible". Nevertheless, the Development Committee Ministers "equally recognized that even taking into account such pledged contributions the Initiative still lacks sufficient funding and called on donors who have not done so already to make generous contributions to the HIPC Fiduciary Fund".

The inclusion of such statements in both Committees' official Communiqués reveal that developed countries have not yet mustered the political will needed to translate intentions into facts. Furthermore, the principle of full participation by all creditors has been interpreted, probably with reason, to entail shifting part of the Initiative's cost to multilateral organizations and, thereby, directly or indirectly, to other developing countries. The still unresolved issue of how to share among creditors the financial burden of the HIPC Initiative (mainly among developed countries since they are by far the major creditors) has been labeled as "burden shifting" to developing countries.

These two examples, together with other very recent situations, illustrate the difficulties encountered in the definition and the implementation of a Common Agenda. Such an agenda should be the natural result of the "Bangkok Spirit" and should not be exclusive of the Positive Agendas that developed or developing countries might hold. They equally show that, even though the Spirit of Bangkok has proved to be a step forward of undeniable importance, it still has to translate into specific attitudes and initiatives, particularly on the part of developed countries.

III. By way of Conclusion: The Spirit of Bangkok and Shared Globalization.

The promises raised by the Spirit of Bangkok, on the one hand, and the fears it equally raises of not becoming reality, on the other, affect not only governments and representatives of civil society participating in official meetings. For reasons difficult to explain –which, in any case, go far beyond the scope of these notes– wider segments of society, all over the world, have shown interest and have considered as their own the problems discussed in international economic organizations which were formerly solely the concern of initiated people or experts.

The issues raised by globalization are almost as well known as their implications. More understanding has been gained about a phenomenon that for some time has been affecting daily life. While it is true that, as Mike Moore said at UNCTAD X, globalization is a term that covers almost anything, it is also true that it has unleashed almost any type of passion.

The public protests and the groups that have challenged globalization pointing to its negative effects also mention the most varied and uneven issues. Nevertheless, they have centered their attention mostly on international economic organizations, as shown by the riots in Seattle and Washington. The WTO, the IMF and the World Bank have been the chosen targets, partly because they are the most visible inter-governmental organizations whose decisions affect all and mobilize the greater number of resources.

These organizations have not been the only targets of protests. Many of the groups responsible for the riots are issue groups, for example environmental groups, concerned with questions that go beyond the scope of multilateral institutions. Other groups extend their rejection of globalization to non-governmental bodies. This explains the attacks against the Davos World Economic Forum. The fact is that attention is now focused on the management of the global economy and on the decisions adopted by related organizations.

It should be pointed out that the most organized protests have taken place in developing countries, which are the ones that have benefited most from globalization. On the other hand, protests in Bangkok –the capital of a country seriously affected by the Asian crisis, a symbol of the problems caused by globalization– were practically minimal. Opposition has been voiced not just in the streets. Politicians from the most varied tendencies and areas, including important members of the US Congress, academics, business men, workers and the media, to mention a few, have all criticized, from opposite sides, the so-called international community and multilateral organizations.

The above demonstrates that the management of international economic affairs needs to acquire credibility beyond the current decision making centers if we are to progress from unilateral to shared globalization. UNCTAD X acknowledged this need. However, the gap between acknowledgment and action is wide. Bridging such gap goes beyond UNCTAD's mandate and possibilities. Should the Spirit of Bangkok fail to reach the decision making organizations that manage financial resources and the governments of the countries that manage such organizations, then the message regarding the need to coordinate efforts and actions will not reach people and societies.

The agreements on the areas of convergence that have been identified, such as the struggle against poverty, will not acquire respectability if actions and results do not accompany them. This explains the emotional call made by Michel Camdessus at his last Annual Assembly as Managing Director of the IMF and at the Bangkok Conference. He urged the international community to meet the objectives it agreed upon during the nineties, particularly within the framework of the UN, foremost among them that of reducing by half, by the year 2015, the number of people living in absolute poverty and other social objectives. It would be unfortunate if these commitments were to meet the same end as developed countries' pledge to dedicate 0.75% of their GDP to development assistance, a target that has not been met by most of them.

In this sense, it is dangerous for the credibility of the international community, as well as for the governments that comprise it, that objectives should be shared and commitments assumed only to fail to carry out the actions derived from them. To agree that the reduction of poverty is the most important challenge of the XXI century; to establish that the solution of social problems such as education and health is an indispensable requirement for development and to proclaim that social peace cannot be sustained in an environment of recurring crises, is important and UNCTAD should be thanked for having contributed to a clear and shared statement of these issues. This is the merit of the Spirit of Bangkok and its promise.

But if the international economic community returns to its traditional procedures, inflexibility and negotiating positions, then the failure to meet the proposed objectives, the disillusion caused by unsatisfied promises, the frustration of aspirations and the fear of betrayal could widen the gap between the diverging positions we attempted to bridge. The legitimacy we seek for common actions will turn into illegitimacy. This is particularly true of international financial institutions the political bodies of which often commit them to ambitious programs while denying them the resources to carry them out.

As the Bangkok Declaration states "an agreement on the shared moral commitment to a better and fairer world" is desirable and "to a great extent" possible to achieve at UNCTAD X. However, that commitment must be legitimated before the international community and public opinion through actions by which the parties establish in good faith the objectives they seek and meet the agreements they reach.

Notes

1. See SELA, »Between Seattle and Bangkok», notes on UNCTAD X regarding the difference between deliberating and operative organizations.

2. SELA, «Globalization with Development». Permanent Secretariat's contribution to the Latin American and Caribbean Agenda at UNCTAD X, June 1999, SP/Di No. 9-99.

Globalization and Regionalization: a View from Latin America and the Caribbean

This document analyzes the tendencies of Latin America's and the Caribbean's recent integration to the world economy, mainly through trade and investment flows. It points out that the governments of the region are trying to integrate their economies to the world economy through bilateral, regional, hemispheric and multilateral relations. Only few of our countries have diversified their exports, in terms of both markets and goods. In this regard, Mexico's case is noteworthy since this country has been very successful in its export diversification, even though over 80% of its exports are aimed to one country. Chile is another such case, in that it has diversified its markets but concentrated on just a few export products.

Globalización y regionalización: una visión desde América Latina y el Caribe

En este texto se analizan las tendencias de la reciente integración latinoamericana y caribeña a la economía mundial, principalmente a través del comercio y los flujos de inversión. Destaca que los gobiernos de la región están tratando de integrar sus economías a la economía mundial a través de las relaciones bilaterales, regionales, hemisféricas y multilaterales, y que son pocos los países nuestros que han diversificado la composición de sus exportaciones, ya sea en términos de bienes o de mercados. En este sentido destacan los casos de México, que ha tenido mucho éxito en diversificar la gama de productos de sus exportaciones, aunque depende de un solo mercado para más del 80 por ciento de sus envíos; y Chile, que logró diversificar el destino de sus exportaciones, pero concentradas en unos cuantos productos.

Mondialisation et régionalisation dans l'optique de l'Amérique latine et des Caraïbes

Ce texte analyse les tendances de l'intégration récente de l'Amérique latine et des Caraïbes dans l'économie mondiale par le biais des échanges commerciaux et des flux d'investissements. Il souligne les efforts d'intégration dans l'économie mondiale déployés par les gouvernements de la région grâce à l'établissement de relations bilatérales, régionales, continentales et multilatérales, et fait observer que peu de pays ont diversifié la composition de leurs exportations en termes de biens ou de marchés. Deux d'entre eux se distinguent à cet égard : le Mexique, qui a diversifié avec succès sa gamme de produits d'exportation, bien que quatre-vingt pour cent d'entre eux dépendent d'un seul marché; et le Chili, qui est parvenu à varier la destination de ses exportations, toutefois axées sur quelques produits.

Globalização e regionalização: uma visão da América Latina e do Caribe

Foram analisadas, neste texto, as tendências da recente integração latino-americana e caribenha à economia mundial, principalmente através do comércio e dos fluxos de investimento. Ressalta-se, igualmente, que os governos da região estão tentando integrar suas economias à economia mundial através das relações bilaterais, regionais, hemisféricas e multilaterais e que dos nossos países, poucos são os que já diversificaram a composição de suas exportações tanto em termos de bens como de mercados. Neste sentido, destacam os casos do México, que tem tido muito sucesso em diversificar a gama de produtos de suas exportações embora dependa de um único mercado para mais de 80% de seus envios e do Chile que conseguiu diversificar o destino de suas exportações, concentradas, porém, em apenas alguns produtos.

Globalization and Regionalization: A View from Latin America and the Caribbean

The following text is an abridged version of the document prepared by the Secretariat of the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) for UNCTAD X.

Introduction

Over the last 15 years the governments of Latin American and Caribbean countries have made far-reaching changes in their trade and foreign exchange regimes. These changes have been set within the framework of sweeping macroeconomic reforms undertaken to improve the workings of domestic markets, reorganize the system of incentives for the private sector, eliminate anti-export bias, and help to increase the international competitiveness of the production units located within their national borders. Average tariffs have been lowered, and the degree of dispersion around the average tariff rate has been reduced.[1] Most of the administrative and non-tariff measures affecting imports have been discontinued, and the number of different tariff levels has been reduced, thereby making possible for Latin American countries to adopt more uniform tariff structures. This trade liberalization process was carried out unilaterally throughout the more than seven years of the Uruguay Round negotiations.

As a result of these policy changes, economic growth in Latin American and Caribbean countries has come to depend on the degree, intensity and quality of their integration into an economy that has become both globalized and regionalized. The recent international financial crisis and the dramatic collapse of commodity prices have served as eloquent testimony to the importance of expanding and diversifying exports in order to make it possible for an export-led development strategy to generate sustained growth. Reliable access to goods and services markets, and dynamic external demand, are essential factors in raising the effective level of exports for any given supply of exportables, assuming efficiency in domestic production. The recent crisis has drawn attention to the external vulnerability of most of the region's economies, in both financial and productive terms.[2]

Moreover, Latin American and the Caribbean countries, like other developing nations, are in a particularly disadvantageous position to face the growing criticisms from societies in advanced economies, with respect to labour conditions, protection to the environment and quality of political and legal institutions in their countries. The region is known to have the worst income and wealth distribution of developing countries. The magnitude of the social gap in the region, the weakness of its economic, legal and social institutions, and the increasingly fragile State apparatus all contribute to a dramatic need of profound reforms. Over the past decade, ECLAC has argued for a new wave of reforms in Latin America and the Caribbean, following the structural reforms in the areas of macroeconomic stability, external openness and rationalization of the State. These reforms cannot be limited merely to greater liberalization of the markets, however, but must pragmatically seek a creative relationship between the State, the market and the civil society to make it possible to develop a broad agenda that include equity and social cohesion, environmental sustainability and democratic development.

"The magnitude of the social gap in the region, the weakness of its economic, legal and social institutions, and the increasingly fragile State apparatus all contribute to a dramatic need of profound reforms."

In what follows, major trends of Latin American recent integration to world economy are reviewed. These short notes will be more focused on integration through trade and investment flows. The financial and monetary aspects of Latin American integration to global economy were extensively dealt with elsewhere.[3] It is suggested that Latin American governments are pursuing the integration of their economies to a world economy through bilateral, regional, hemispheric and multilateral intercountry relations. Very few countries in the region have diversified the composition of their exports, either in goods or markets. Those like Mexico, that was very successful in diversifying the product mix of their exports, depend on one single market for more than 80 per cent of their shipments; others, like Chile, that was successful in diversifying the direction of its exports, have still the product mix of its exports concentrated in a few products.

I. Latin America and Global Integration

1. Trade patterns

The beginning of the 1990s witnessed an overall reduction of tariffs in Latin American countries and the virtual elimination of all quantitative restrictions on imports, as part of their unilateral all quantitative restrictions on imports, as part of their unilateral trade policy reforms. Moreover, at the end of the Uruguay Round, the majority of Latin American and Caribbean countries bound nearly 95 per cent of their tariff schedule. Although at levels higher than those actually practiced, nevertheless the commitment represented a departure from previous Rounds. Average tariffs have been reduced to moderate levels in many countries and the dispersion or range of tariffs has also decreased. In addition, tariff structures have also been rationalized with the elimination of tariff exemption and the reduction of bands of rates.[4]

Following the overall trends of world economy, in the 1990s trade in Latin America increased at rates systematically greater than GDP . Two caveats, however are necessary: firstly, in the 1990s, Latin American rates of growth were moderate, with the notable exception of Chile, (and for many countries in the good years of 1994 and 1997). The average growth of the region (3.5 per cent per year) not only continues to be slower than the level which ECLAC considers desirable for closing the gaps separating the region from the most highly developed countries (6 to 7 per cent per year) but it is also lower than the average rate (5.5 per cent yearly) registered by the region between the 1950s and the 1970s. It also reflects the difficulty of recovering the levels of investment registered in the phase of fastest economic growth.

Secondly, partly because the liberalisation programmes in Latin America were implemented in the presence of sharp appreciation of the currency in real terms, there has been a dramatic increase in imports in the region.[5] According to ECLAC data, from 1991 to 1999, the average rate of the regional GDP was 3.2 per cent whereas the value of exports increased at 10 per cent and imports at roughly 12 per cent (in 1995 dollars).

In addition, due to high deviations from that average among national economies, those figures hide more information than what they convey: from 1992 to 1998, Mexican exports increased at a rate closer to 14% whereas Latin American exports (excluding Mexico) could no go beyond the world average of 7 per cent (although the Mexican economy was hardly hit by the peso crisis of 1994, and the average rate of growth over the 1990s was just 3.1 per cent yearly).[6]

International production sharing via *maquiladoras* catering to the United States markets led to an impressive growth of Mexican trade, as well as of a few Central American and Caribbean countries, particularly since 1997 when many countries had difficulties in maintaining the level of their trade (see table 1). Only Mexico, Costa Rica, Dominican Republic, El

Salvador, and Haiti increased the value of their exports in the last three years of the decade. From 1997 to 1999, Mexican exports increased 23% whereas the average for the region was roughly 3.6%. As the result, Mexican exports accounted for roughly 37 per cent of regional exports in 1997 and closer to 44 per cent at the end of the decade.[7]

As the result of those differential rates of growth, there was an overall increase in the share of exports and imports in GDP.8 The share of exports increased from roughly 12 per cent in 1989-1990 to almost 19 per cent in 1997-1999, and the share of imports increased more dramatically from less than 10 per cent to closer to 20 per cent. The share of imports in GDP even before the contraction of imports following the debt crisis was barely 12 per cent. Although all countries showed the same trend, the proportions varied considerably among countries. Brazil showed little change in the exports share (from 7 per cent to 8 per cent), in the two periods, although the import share more than doubled (from less than 4 per cent to more than 10 per cent). On the other extreme, Mexican share of exports in GDP increased from 15 to more than 32 per cent whereas the import share increased from roughly 17 to more than 33 per cent.

The gap between export and import performance has resulted in increasingly large trade deficits; these, together with disbursements for interest payments and profit remittances, caused worsening current account balances. Current account deficits gradually increased from the late 1980s to the mid-1990s, from 0.18 per cent of GDP in 1990 to 3.18% in 1994, the year of the Mexican financial crisis; they then declined over the following two years and turned upwards again from 1997 onwards, approaching 3.4% between 1996 and 1998. The worldwide financial crisis which began in mid-1997 had negative effects on the volume and cost of foreign capital flows to the region, and ECLAC estimated that the current account deficit reached 4.5% of GDP in 1998. In order to manage these external imbalances, Governments had to apply severe adjustments, controlling fiscal expenditure and raising interest rates, which led to a heavy fall in growth rates among the region's economies. Consequently, the regional current account deficit was reduced to 3.2 per cent of GDP in 1999.[9]

Imports have an important role to play in the modernization of production process since better industrial inputs and modern machines contribute to the technological upgrading of the industrial basis in the region. Over the 1980s, the accumulation of trade surplus to service their debt by large exporting countries such as Argentina, Brazil, Argentina and Mexico, was totally exceptional in the history of development of those countries. Nevertheless, as mentioned before, imports were reduced as a proportion of GDP in Brazil and Argentina, even in the period of 1970s'boom.

On the export composition, there has been a long-term trend towards a greater participation of manufactures in Latin American exports and a correspondingly reduction in the share of unprocessed commodities. There has not been a reversal of this tendency, after the liberalization of trade policies in the region, mostly due to Mexican exports that weight heavily in the regional averages. There has been, however an overall trend towards a biased reinforcement of comparative advantage based on endowments of natural resources. Some countries (Argentina, Brazil, and Chile) have even shown an increase in the share of primary products at the end of the decade as compared to 1989/1990.

The product composition of Latin American and Caribbean merchandise trade reflected the pattern for world trade as a whole, whereby primary goods have lost their share. Primary products still accounted for more than 35 per cent of the value of Latin American exports in 1988 but only around 23 per cent in 1998. These averages however hide sharp national differences, since the two major exporters, Mexico and Brazil, that are largely diversified bias the average towards the composition of their exports. When Mexico is excluded from the set, the average composition for the other countries remain roughly stable around less than 34 per cent for primary products and 66 per cent for manufactures. A group of manufactured goods defined as having a high technological content represented an increasing share of manufactured exports in the region. When Mexico is included, their share rose from less than 8 percent of total Latin American exports in 1988 to almost 22 percent in 1998. If Mexico is excluded, such exports account for only about 8 per cent in of the value of the exports of the remaining countries in 1998. The share of those products in Mexican exports increased from 15 to 38 per cent in the same span of time.

The geographic focus of Latin America trade flows has changed substantially in recent decades, especially in the 1990s. The most impressive is the increase in the share of the United States in Mexican exports and imports after the implementation of the NAFTA agreement. Although the United States bought 63 to 70 percent of Mexican exports between 1965 and 1990, it now purchases more than 84 percent. A second important change is the continuous growth of Latin American markets as a destination for exports and origin of case of the MERCOSUR countries, for example, trade among members accounted for a little over 16 percent of total trade in 1990, doubling to almost 33 percent in 1996. This segment of trade, nevertheless was hardly hit by domestic policies that were implemented in 1999 to control the devastating effects of the international financial crisis.

Basically, there are very few Latin American countries that can be classified as "global traders". The majority is quite specialized: either in products or in markets. Mexico has a quite diversified exports but, as stressed before, Mexican exports are shipped mainly to the United States.

"Basically, there are very few Latin American countries that can be classified as 'global traders'."

The magnitude of Mexican trade tends also to bias the regional averages toward its geographical composition, just as we have seen happen with product composition. From 1991 to 1995, Mexico accounted for 70 percent of all the LAIA (Latin American Integration Association) exports to the United States and for 61 percent of their imports.[10] Hence, the share of the United States as a destination of Latin American exports, with Mexico included, increased substantially from 33.5 percent in 1965 to almost 50 percent in 1996. When Mexico is excluded, however, the U.S. share actually fell: from 30 in 1965 to 27 percent in the same period. A similar picture emerges for imports.

2. Capital flows

The behaviour of capital flows to Latin America in the last two decades has presented long-term volatility and has been much more variable than trade flows. After reaching a peak in 1981, there was a net outflow of capital, following the Mexican crisis, which started in 1982 and continued to 1990, before a new surge occurred in the 1990s. On the other hand, the large inflows of the current decade have shown significant short-term volatility, and a compound effect on trade, through a negative impact on foreign exchange rate, and greater difficulties for trade financing.

The important increase in the volume of private flows to Latin America in the 1990s can be explained by both domestic and international factors. Firstly, the extensive structural reforms carried out by the majority of the governments in the region reached their purpose of encouraging the return of private capital. More balanced macroeconomic policies, such as the elimination of budget deficits and tighter monetary policies, were crucial to the process, although their weakness would in some cases refuel the vulnerability of the external sector. The reforms have served basically to ease the entry of foreign capital and have served basically to ease the entry of foreign capital and increase the protection of capital owners' rights.

External factors have also been extremely important. First, in the early 1990s, the recession in the industrialized countries and the reduction of United States interest rates were important contributory factors in the influx of foreign funds to Latin America. Second, and a more structural factor was the financial liberalization in industrialized countries and the growing international diversification of the portfolios of institutional investors encouraged the flow of capital to emerging markets generally including to Latin America. Third, contagion –from crises in other countries or even other regions– has become an increasingly important phenomenon in the 1990s.

The significant expansion in the volume of capital flows to Latin America in the 1990s, itself a reflection of the increasing integration of global financial markets, was accompanied by a greater volatility of those flows. Indeed, the pattern of surges and reversals not only are repeated over time but have become more frequent in recent years. Two recent crises, the Mexican peso crisis of 1994-95 and the international financial crisis of 1997-99, have brought violent swings in the levels of capital flows to Latin America, with devastating effects on growth and employment in the majority of the countries. The region has become, nevertheless, very attractive for foreign investors and for multinational corporations.

From 1990 to 1999, foreign direct investment (FDI) flows to Latin America increased on average at almost 17 per cent yearly, from 18.2 to 85.9 billion, largely exceeding trade and GDP growth rates. Although inflows to the region accounted for more than 40% of all FDI flows to developing countries the region however accounted for less than 12 per cent of world flows of FDI. Total FDI flows in 1998 were estimated at 650 billions of dollars and inflows to Latin America were estimated at 76.7 billions of dollars. FDI remained concentrated in industrialized countries. FDI flows in Latin America are also geographically concentrated[11] and as mentioned before, FDI movements in the region are highly associated with mergers and acquisitions, and privatization, mostly in non-tradeables.[12]

Various studies have suggested that trade liberalization and the associated system of incentives determined a wide restructuring process in Latin American industries. In most cases, through privatization, foreign capital de-regulation, mergers and acquisitions there has been important changes in capital ownership patterns, particularly in those sectors in which domestic firms could not compete in equal foot with foreign firms. A recent paper on the market share of foreign-owned enterprises in net returns in Brazilian manufacturing industries showed that that share increased from 28% in 1980 to 43% in 1995. Moreover, the market-share of foreign-owned enterprises increased from 36% to 54% in capital and technology intensive industries whereas; in labour intensive (traditional industries), the expansion was from 7% to 19%; and in resource intensive industries, from 28% to 43%.[13]

Similar trend can be observed for the region as a whole. According to ECLAC data, between the beginning of the decade and 1998, in the group of the 500 largest companies in terms of net sales (after taxes), subsidiaries of transnational corporations have been the big winners (their number increased from 142 to 202 and their share of total sales rose from 26.6 to 38.7 per cent) while State enterprises have been the losers (dropping from 93 to 40 companies and from 35.3 to 19.a per cent of total sales). Private local firms have tended, on the one hand, to maintain their share (approximately 260 enterprises, and between 38 and 42 per cent of total sales). The bulk of these changes occurred in the period from 1995 to 1998, which coincided with the boom in FDI in Latin America and the Caribbean; this was especially true of foreign companies, whose share of the total sales of the 500 largest enterprises in the region rose from 29.5 to 38.7 per cent. In other words, a clear result of the process of globalization and of the adjustment of economic policies in Latin America has been the reinforcement of the relative position of foreign enterprises.[14]

The changes seen within the group formed by the 100 largest manufacturing companies have also been significant, although its share was already large. Between 1995 and 1998, subsidiaries of transnational corporations succeeded in increasing their share of sales from 55.5 to 60.7 per cent, despite the fact that the actual number of TNCs counted among the top 100 industrial enterprises in Latin America dropped from 48 to 47. Conversely, while the number of private local firms remained constant, their share of total sales dropped from 42 to 38 per cent.[15]

In addition, from 1995 to 1998, the share of multinational corporations in the total exports of a sample of large Latin American countries increased from 18 per cent to more than 31 per cent.

II. Latin American Regional Integration

Throughout the 1990s, the countries of Latin America and the Caribbean have associated their unilateral liberalization with active participation in multilateral negotiations in the framework of the WTO and bilateral, multilateral and interregional free-trade agreements. Trade liberalization and the deregulation of investment in national economies have led to growth in trade and investment within the region. Substantial moves towards regional integration could be perceived, through new subregional arrangements such as the Southern Common Market (MERCOSUR) or the strengthening of other schemes such as the Andean Community (formerly the Andean Group), the Central American Common Market (CACM) and the Caribbean Community (CARICOM). For the first time, regional economic integration ceased to be of interest solely to political and academic forums and have become part of business strategies of corporate groups established in Latin America.

"During the current decade, integration in Latin America and the Caribbean followed a course and displayed a dynamism that would have been difficult to foresee in earlier years."

During the current decade, integration in Latin America and the Caribbean followed a course and displayed a dynamism that would have been difficult to foresee in earlier years. Changes in the policies of countries in the region contributed to a strong revival of intra-regional trade following the sharp setback suffered in the 1980s with volumes soaring in the following years and growth rates exceeding those recorded for exports to third countries; by 1998, intra-regional trade accounted for more than one fifth of total exports from countries of the region.[16] The opening up of the economies in the region and consolidation of the process of integration brought home to countries the advantages of proximity and enabled them to maximize the potential of their natural markets in the region, above all for the sale of manufactures and services. Aggregate data show that there was genuine trade creation between member countries of the integration schemes and preferential arrangements, while trade diversion was limited on account of the general lowering of tariffs.

In a document published in 1994, ECLAC launched the concept of "open regionalism" in Latin America and the Caribbean. This concept was used to describe the trend which existed at the end of the Uruguay Round, when the dynamism of subregional movements was combined with unilateral liberalization and the movement towards hemispheric integration. Open regionalism is defined as interdependency between preferential agreements and "de facto" integration in response to market signals, resulting from a broad and generalized liberalization (ECLAC, 1994).[17]

Unilateral liberalization does not guarantee openness in importing markets. In an international context which is still mercantilist, Governments maintain their role of defining and implementing property rights and negotiating access to their territory for persons, goods, capital and technology through public policies and legislation. In the present context, these policies imply low tariffs, which can be accompanied by non-tariff restrictions such as safeguards, anti-dumping measures, technical barriers and the newly revival of extinct voluntary export restriction agreements.18 In this way, in an economic environment where globalization and profound regionalization are taking place at the same time, States are seeking to define market integration strategies to ensure more reliable access for their products to import markets. In addition, as has been emphasized in the economic literature, intraregional trade tends to include a larger proportion of manufactured goods and of technology-and/or skill-intensive products, together with trade in such services as tourism, transport, professional services, and others.

"Intraregional trade and investment flows were severely affected by the impact of the international financial crisis on the aggregate demand in South American countries."

Although the region (excluding Mexico) was the destination of just over 33% of exports from the other Latin American and Caribbean countries in 1998, 41% of exports of industrial goods were to other countries of the region, and the figure was 74% for durable goods and more than 50% for goods classified as sources of technical progress, most of which were capital goods.[19]

Trade liberalization and stable monetary conditions also contributed to an increase in intra-regional investment, which, although modest in terms of volume –between 3% and 5% of total foreign investment flowing into the region– is significant given its dynamism and other qualities which make it particularly important for the effective integration of the productive and trade systems in the region. Stimulated initially by privatizations, this investment, which had been practically non-existent in the past, took off in the early part of the decade; investors subsequently sought to consolidate their foothold in subregional markets which were integrating through binding agreements such as MERCOSUR and the Andean Community.

Unfortunately, intraregional trade and investment flows were severely affected by the impact of the international financial crisis on the aggregate demand in South American countries. Until mid-1998, the integration process seemed able to withstand the unfavourable external climate, but estimates now point to a slump in intra-regional trade in 1999. Available data for the year for eleven countries of LAIA suggest that imports originating within the region may have decreased by some 25 per cent. This proportion is much higher than the decline suffered by imports from the rest of the world cent, which is estimated at 5 per cent.20 However, it should be considered that these data may actually be underestimated since Mexico in also included in LAIA aggregate data. According to the preliminary figures estimated by ECLAC and the Secretariat of LAIA, intra-zonal trade retreated 30 per cent in the area of MERCOSUR and 33 per cent in the Andean Community. This contraction confirms that intra-regional trade ties are still fragile and may be severely affected by lack of financial liquidity and the composition of that direction of trade.[21]

The repercussions of the International financial crisis in the region triggered a debate on the relevance of coordinating key macro-economic policies, such as foreign-exchange and fiscal policies, in particular those geared to attracting investments.[22] Both the MERCOSUR countries and those of the Andean Community have reached agreements aimed at achieving a gradual convergence of their key macro-economic policies. Nevertheless, whereas the demands of coordination have increased markedly, these countries' actual ability to accept specific disciplines in these areas have diminished in the same proportion as their national policies have become increasingly ineffective in protecting their economies against external shocks. Furthermore, in a climate of economic contraction, doubts persist as to the feasibility of imposing regional and subregional agreements on economies whose trade linkages within the subregion remain weak.[23]

III. Latin America and the Caribbean and a Multi-Track Trade Strategy

If the export model that the Latin American and Caribbean countries have been using during the past 15 years as they move to liberalize trade and investment flows is to result in the growth of their economies, a number of macroeconomic and microeconomic conditions should be met. One of the most important ones is reliable, predictable access to goods, capital and technology markets. The Uruguay Round agreements have increased the transparency of national trade rules and policies and have extended the scope of multilateral rules and disciplines, which had previously been confined to manufactures, to include new areas such as services and the protection of the intellectual property rights of business enterprises, and sectors that had previously been outside the bounds of the multilateral trading system, such as trade in agricultural goods, textiles and wearing apparel. However, despite the efforts made by the developing countries during the negotiations, their outcome was extremely unbalanced in terms of the distribution of the costs and benefits associated with the agreements that were reached.

The Governments of the region demand, on the one hand, that tariff barriers to products in which they have a comparative advantages should be reduced and, on the other, that they should not be prevented from increasing their export capacity by importing countries' use of new types of trade restrictions and discriminatory measures, such as antidumping provisions and discretionary safeguards, and the recent resurgence of measures similar to the now prohibited modality of "voluntary" export restraints. Finally, the Governments require that they not be barred from using policy tools to change their economies' export specializations and defend legitimate national interests, such as growth, job creation, improved wage levels, etc. Therefore, the Governments need to have a means of improving their ability to negotiate with large transnational corporations, which should be obliged to meet certain socially desirable requirements in such areas as technology transfer, training and the creation of local supply chains. Accordingly, in the talks focusing on how to improve the disciplines applying to trade in services, the region's negotiators do not want to abandon the GATS architecture, which ensures them the right to select the sector and manner in which they are to accord national treatment to services and suppliers and to demand of them, in return, that these firms help the country to improve its competitive position with regard to trade in services.

"*Large transnational corporations, should be obliged to meet certain socially desirable requirements.*"

Various experts have observed that the number of items included on the multilateral trade agenda has been increasing as the average level of tariffs on manufactures declines and that the negotiations have begun to encompass aspects of domestic regulatory and policy issues. At the conclusion of the Uruguay Round, the agreements that had been reached were represented as constituting a single undertaking which the countries had to accept as such; in other words, they would not be able to sign some of the agreements while abstaining from others. Specifically, the developing countries agreed to lower their trade barriers while at the same time making a commitment to establish certain rules and institutions without having the benefit of accurate estimates of the cost of implementing such agreements as those relating to technical standards and to plant and animal health standards or of enforcing intellectual property laws.[24]

Unlike tariff reductions, the WTO rules in these areas cannot be implemented unless the proper infrastructure is already in place and unless major investments are made in the purchase and installation of equipment, training and the establishment of legal systems or mechanisms.[25] Although in many cases these commitments were translated into legislation that was ultimately passed by the countries in question, their institutional capacity has not been up to the job of fully implementing those laws. Simply stated, the ability to propose, formulate and execute contracts effectively and economically is a basic aspect of an advanced stage of economic and social development, but it is one that many Latin American and Caribbean societies lack. These countries need to have not only a coherent and consistent body of law but also regularly staffed and funded organizations in order for them to be able to honour their commitments fully.

The Latin American and Caribbean countries' frustration with the outcome of the multilateral negotiations has prompted them to seek out other types of contractual arrangements that would give them access to import markets. In parallel with the creation and operation of WTO, various other initiatives have been pursued at the bilateral, subregional, hemispheric and interregional levels in an effort to liberalize important segments of trade with specific trading partners and to introduce more rigorous disciplines than those agreed to in the multilateral negotiations.

Regionalism has been chosen as a mechanism through which national Governments can direct the economic integration process without losing their policy-making autonomy and thus their ability to influence trade and investment flows. Subregional groupings provide a clearer picture of the implications of public-policy convergence and harmonization, and the different aspects involved in the negotiation of internal rules and disciplines can be evaluated more accurately by smaller, more homogenous groups. Later on, the results of this learning process can be applied to similar negotiations in multilateral, hemispheric and interregional forums, and the negotiation process in each one of these forums will be enhanced by the experience gained in the others.

ECLAC has advocated the idea of open regionalism in a variety of different documents and studies. This concept is based on the view that unilateral, regional and multilateral liberalization processes can all build upon one another provided that Governments have a clear picture of the interests at stake. Although simultaneous negotiations in subregional, regional, hemispheric and multilateral forums place considerable demands on the countries' scarce technical resources and require a great deal of effort, they also provide constructive feedback and learning opportunities. Multilateral rules and disciplines establish either a ceiling or a floor for negotiations in the other forums,

"*Regionalism has been chosen as a mechanism through which national Governments can direct the economic integration process without losing their policy-making autonomy and thus their ability to influence trade and investment flows.*"

while some types of highly complex issues can be dealt with more successfully in smaller groups. All the Latin American and Caribbean countries are members of WTO and all are participating in subregional and regional arrangements as well.

In addition, Chile, Mexico and Peru also take part in the forum for Asia-Pacific Economic Cooperation (APEC), all the countries of the region are currently engaged in negotiations with the European Union, and intensive negotiations on WTO-related issues are being conducted at the bilateral level between countries of the region and industrialized countries. At the Santiago Summit of the Americas, held in April 1998, the Heads of State and Government of the countries of the Americas decided also to begin negotiations with a view to the establishment of a free trade area for the Americas (FTAA), reaffirmed their determination to conclude the negotiation of FTAA no later than 2005, and reiterated their commitment to ensuring that the FTAA agreement would be balanced, comprehensive and WTO-consistent and that it would constitute a single undertaking. In addition, the delegates attending the fifth Ministerial Meeting, held in early November 1999 in Toronto, expressed their support for the opening of new multilateral negotiations in WTO but also stressed that the FTAA negotiations had a distinct aim, which was to create a free trade area that would function in a manner consistent with the relevant WTO provisions.

The representatives of the Governments of the region are thus striving to maintain the priority assigned to the establishment of multilateral rules before moving ahead with hemispheric commitments, on the one hand, and, on the other, to see to it that the negotiations will ensure them the manoeuvring room they need to promote economic integration at the subregional and regional levels. Over the past few years the Latin American and Caribbean Governments have concentrated their efforts on ensuring that the negotiations in each of the various forums proceed at the differing paces required in order for the region to maintain the manoeuvring room it needs to pursue its economic integration process.

A positive loop has been formed among the multilateral, hemispheric and subregional levels and, as a result, internal relations have taken on a dynamic that is impelling Governments and organized civil society towards the definition of regulatory systems and disciplines that are in keeping with the region's interests. In order to make it possible for subregional schemes to make further headway, the participating countries have been deepening and broadening their subregional markets and reducing the costs of trade diversion inherent in small-scale schemes; this course of action is also designed to bolster the region's bargaining position vis-à-vis third parties.

The ministers of trade of the Latin American and Caribbean countries have made a commitment to ensure that FTAA can coexist with bilateral and subregional agreements in cases where the rights and obligations established under those agreements are either not covered or exceed the rights and obligations established under FTAA. Thus, subregional arrangements should function as true customs unions, since FTAA will operate as a free trade area, and should establish more far-reaching rights and obligations than those corresponding to FTAA in specific areas such as trade in services, competition policy and intellectual property rights.

For example, one of the major challenges facing Latin America and the Caribbean –one for which the FTAA negotiations have acted as a catalyst– has to do with the convergence of integration schemes, as in the case of the liberalization initiative being undertaken by MERCOSUR and the Andean Community with a view to setting up a joint free trade area for all their member countries.

An understanding of the positive aspects of multi-forum negotiations is essential, especially since the overriding concern of the Latin American and Caribbean countries within the context of the multilateral process is to focus attention on its development dimension, which underscores the need to take affirmative action on behalf of the developing economies (special and differential treatment) and to rectify the asymmetries generated by the Uruguay Round agreements. The ultimate aim here is to achieve a greater balance in terms of the rules and regulations governing international trade so that the countries of the region may take an increasingly active part in international trade and to arrive at a more equitable distribution of the costs and benefits associated with liberalization and the shift to new patterns of global competition.

Notes

1. For further details, see ECLAC, 1998, **América Latina y el Caribe: políticas para mejorar la inserción en la economía mundial.** Revised second edition. *Santiago, Chile, Fondo de Cultura Económica.*

2. Ambassador Rubens Ricupero has noted that the financial crisis hit the more advanced developing economies with more successful export records particularly hard, such *as Chile and the countries of East Asia (Ricupero, Rubens, 1999), "To the Next Trade Negotiating Round Conference: Examining the Agenda for Seattle. Why not a Development Round this Time, for a Change?", Keynote Luncheon Statement, New York, University of Columbia, 23 July.).*

3. See Ocampo, José Antonio (1999), **La reforma del sistema financiero internacional: un debate en marcha,** *CEPAL/ Fondo de Cultura Económica, Santiago de Chile. Also, Ffrench-Davis, Ricardo (1999),* **Macroeconomía, comercio y finanzas: para reformar las reformas en América Latina,** *CEPAL/ McGraw-Hill, Santiago de Chile.*

4. From the late 1980s to the early 1990s, the average tariff in Latin America moved from an average closer to 40 per cent, but with wide dispersion to an average of 12 per cent and low dispersion.

5. Agosin, Manuel R. and Ricardo Ffrench-Davis 1993, "Trade liberalization in Latin America", in CEPAL Review, *n. 50, August, pp. 41-62. Latin American growth model has been labeled "import-led growth".*

6. Mexico adopted one strategy of integration with the United States economy, at first through bilateral agreements and later through the creation of the North American Free Trade Area (NAFTA).

7. ECLAC, 1999, Preliminary overview **of the economies of Latin America and the Caribbean**, 1999, *(in Spanish), Santiago, Chile (LC/ G.2088-P). United Nations publication. Sales number S.99.II.G.58, December.*

8. Generally, those indicators of trade openess are also used as indicators of "globalization".

9. It should be emphasized that according to the IMF the countries of Latin America and the Caribbean continue to show the highest coefficients of all the developing countries in terms of interest payments on external debts in relation to the value of their goods and services exports. The figure was close to 16.6% in 1998, and was estimated to increase to almost 18% in 1999, or almost twice the average for the developing countries (8.5% and 9.1%, respectively) (IMF, 1999, World Economic Outlook, *May, Washington, D. C., table 42, p. 205).*

10. Although Cuba is now a member of LAIA, the data refers to 11 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

11. The large economies Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela accounted for more than 80 per cent of FDI flows in 1998. Brazil and Mexico alone were recipients for 65 per cent of those flows.

12. ECLAC (2000), **Foreign Investment in Latin America and the Caribbean**, 1999 Report, *(LC/G. 2061-P), Santiago de Chile.*

13. Moreira, Mauricio Mesquita 1999, "Estrangeiros en uma Economia Aberta: Impactos Recentes sobre Produtividade, Concentração e

Comercio Exterior, *Texto para Discussão" BNDES/ DEPEC n. 67, March; see also Ventura-Dias, Ventura-Dias, V., Mabel Cabezas and Jaime Contador (1999),* "Trade Reforms and Trade Patterns in Latin America" *(LC/L.1306-P), Serie Comercio Internacional n. 5, ECLAC, Santiago, Chile, December*

14. ECLAC, 2000, **Foreign Investment in Latin America and the Caribbean** (LC/ G.2061-P), Santiago, Chile (p.58).

15. ECLAC, 2000, p. 59.

16. If Mexico is excluded, the proportion is significantly higher, since, as already pointed out, its trade ties with the other countries of the region are inclined to be weak.

17. The expression "open regionalism" was originally proposed in the late 1970s by Prime Minister Masayoshi Ohira of Japan, to define open regional cooperation which is consistent with the interests of the world community (Palacios, J.J. (1995), "El nuevo regionalismo latinoamericano", Comercio exterior, *April.*

18. Sáez Sebastián y Juan Gabriel Valdés (1999), "Chile y su política comercial 'lateral'", Revista de la CEPAL, *Nº 67 (LC/ G.2055-P), Santiago de Chile, abril., p. 89) point out, in the case of Chile, "Clearly, unilateral liberalization does not necessarily entail liberalization of the markets of Chile's trading partners. For example, it has no effect on their customs practices or the way in which technical barriers are established or implemented; and other countries' restrictive practices are not eliminated through the adoption of anti-dumping measures. Agreements between countries can lead to reliable and predictable forms of preferential market access, facilitating the development of export projects."*

19. It is noteworthy that even in the case of Mexico, although about 90% of its exports to the United States in 1998 were industrial goods, the figure is higher for exports to Latin American and Caribbean countries, averaging about 93%.

20. According to incomplete data provided by the LAIA secretariat on exports from some of its member countries to the subregional market, exports have declined by 27.3% in the case of Colombia, 20.6% for Chile, 24.7% for Ecuador, 19.8% for Peru, 36.4% for Uruguay and 49.0% for Venezuela. Conversely, exports from this sample of countries to the rest of the world have declined by as little as 2.8%. If we examine the trend for imports from these same countries, substantial declines can be seen for all, ranging from 49.4% (Colombia) to 0.6% (Mexico), with an overall average for the LAIA grouping of 30%. Values seem, moreover, to be closely linked to the depth of the recession experienced in each of the 11 member countries and specific measures applied by several of them to slow imports.

21. As a direct result of the 1982 financial crisis, intra-regional trade shrank by 35 per cent in the period 1982-1983 and this decline was not reversed until 1990.

22. Currently, the two

major countries in MERCOSUR, namely, Argentina and Brazil, apply diametrically opposite foreign-exchange policies: a fixed exchange rate in the case of Argentina and a floating rate in the case of Brazil.

23. *This is the case of Brazil and of the member countries of the Andean Community.*

24. *Finger, J. Michael and Philip Schuler (1999), "Implementation of Uruguay Round Commitments: the Development Challenge", document presented at the Joint World Bank/WTO Seminar on the millennium round, Geneva, 20 and 21 September [http: www.wto.org].*

25. *See Finger and Schuler, opus cit.*

The Declaration of Bangkok

We, the member States of the United Nations Conference on Trade and Development, gathered in Bangkok, Thailand, between 12-19 February 2000, for the tenth session of the Conference, agree and declare:

The Setting

1. We came to Bangkok to deliberate on developmental strategies in an increasingly interdependent world, and on how to make globalization an effective instrument for development. In the context of the opportunities created by the technological revolution, the opening of markets, and globalization, the paramount objectives of our endeavours have been the promotion of growth and sustainable development, and the quest for equity and participation by all. Our deliberations have reminded us of the enormity and the urgency of the challenge of translating broadly agreed concepts into effective action. We leave Bangkok with the conviction that we will be able to advance in the effort of achieving more effective coordination and cooperation among governments and among international institutions in dealing with global interdependence and development.

2. Globalization is an ongoing process that presents opportunities, as well as risks and challenges. It has expanded the prospect for technological advances and for effective integration into the international economy. It has increased prosperity and the potential for countries to benefit. However, globalization also raises the risk of marginalization of countries, in particular the poorest countries, and the most vulnerable groups everywhere. Income gaps within and among countries remain wide, and the number of people living in poverty has increased. Asymmetries and imbalances in the international economy have intensified. Instability in the international financial system continues to be a serious problem and requires urgent attention.

3. The tenth United Nations Conference on Trade and Development took place in a country and a region that were at the centre of one of the most severe financial and economic crises of recent times, which had an adverse effect on almost all developing countries. Despite their adverse economic and social impact, crises can act as catalysts; they tend to focus the mind and the will of Governments and peoples on decisive action to face the difficulties. This happened, for example, in East and South-East Asia. Within a relatively short period, through various sound national responses, and with the cooperation of the international community, the countries concerned have been able to meet the challenge of resuming growth and are now emerging from the crisis with a renewed sense of confidence. This demonstrates the power of human spirit when it mobilizes collective efforts to address the challenges of globalization.

4. Formidable challenges remain. Countries affected by the crisis have had to address their structural problems, which have been magnified by social and human suffering and dislocation. They must, with the assistance of the international community, define strategies that will strengthen and sustain growth while allowing for a rapid return to the levels of human and social development seriously undermined by the crisis. They must also transform their institutions into efficient instruments for the implementation of these strategies. The qualities that characterized East and South-East Asia and that are common to all success stories of development remain valid: sound macroeconomic fundamentals, improved governance, high savings rates, investment in human resources, sustainable use of natural resources, strong partnership between the public and private sectors, and export orientation. These characteristics are among the necessary conditions for sustained economic growth and sustainable development. We must take purposeful action to avoid, and mitigate the risks of, future crises. In addition to national efforts, the international community as a whole has the responsibility to ensure an enabling global environment through enhanced cooperation in the fields of trade, investment, competition and finance and to contribute to currency stability so as to make globalization more efficient and equitable.

A New Beginning

5. As the first major intergovernmental economic and development conference of the century, UNCTAD X has provided us with a unique opportunity to take stock of and reflect on recent experiences of globalization, to examine strengths and weaknesses in past approaches and policies, and to identify the major challenges ahead:

- ensuring the effective integration of all countries into the international trading system;
- improving supply capabilities; overcoming the debt problem;
- strengthening the commitment to social development;
- ensuring women's political, economic and social participation;
- generating adequate financial flows for development,
- including addressing the declining trend of Official Development Assistance (ODA) and its effective use;
- undertaking institutional reforms;
- reducing financial volatility; and
- enhancing the technological capabilities of developing countries. It has allowed the international community to focus on the central problems of recent decades, notably acute poverty and growing inequality within and among nations, problems which are threatening international stability. In an increasingly knowledge-intensive world, support for knowledge-based development is necessary for effective participation of developing countries in the world economy.

6. Globalization can be a powerful and dynamic force for growth and development. If it is properly managed, the foundations for enduring and equitable growth at the international level can be laid. For that, it is essential to persevere in the search for consensual solutions through open and direct dialogue that takes account of the fundamental interests of all.

7. The Bangkok Conference has particularly emphasized the need for increased policy coherence at the national and international level. There should be complementarity between macroeconomic and sectoral policies at the national level and between policies at the national and international level. There is also a need for more effective cooperation and coordination among multilateral institutions. National and international institutional frameworks should be strengthened accordingly.

8. Many countries have difficulty in coping with the increased competition and lack the capacity to take advantage of the opportunities brought about by globalization. This requires a decisive effort in favour of those at risk of marginalization. In this regard, Africa, which has as much potential as any other region, should be given special attention. For the international community, just as for each and every national society, the ultimate test lies in the way it treats the weaker members of the community. In this context, the Conference emphasizes the importance of the forthcoming Third United Nations Conference on the Least Developed Countries, and urges the international community to contribute towards its success.

9. Solidarity and a strong sense of moral responsibility must be the guiding light of national and international policy. They are not only ethical imperatives, but also prerequisites for a prosperous, peaceful and secure world based on true partnership. Such partnership requires more inclusive, transparent and participatory institutional arrangements for international economic decision-making so as to ensure that the benefits of globalization are accessible to all on an equitable basis. In addition, the success of international development efforts depends on account being taken of all stakeholders, including the private sector, non-governmental organizations (NGOs) and academia.

10. The Conference emphasizes commitment to a multilateral trading system that is fair, equitable and rules-based and that operates in a non-discriminatory and transparent manner and in a way that provides benefits for all countries, especially developing countries. This will involve, among other things, improving market access for goods and services of particular interest to developing countries, resolving issues relating to the implementation of World Trade Organization (WTO) agreements, fully implementing special and differential treatment, facilitating accession to the WTO, and providing technical assistance. The Conference reiterates that all countries and international organizations should do their utmost to ensure that the multilateral trading system fulfils its potential in terms of promoting the integration of all countries, in particular the least developed countries, into the global economy. A new round of multilateral trade negotiations should take account of the development dimension. Securing early progress on all these issues remains a matter of urgency for the international community. The Conference emphasizes the role and contribution of regional integration in this process.

Open Dialogue and Full Engagement

11. As the focal point within the United Nations for the integrated treatment of development and the interrelated issues in the areas of trade, finance, investment, technology, and sustainable development, UNCTAD must make a substantial contribution to the pursuit of development objectives. It must also play an active role in consensus building around well-defined trade supporting and development issues.

12. One contribution of UNCTAD X and its preparatory process has been the achievement of open dialogue and frank exchanges of views. A large measure of agreement was possible in Bangkok on the shared moral commitment to a better and fairer world. UNCTAD's work can serve to address the challenges and opportunities of globalization and inform an open and systematic debate on diverse development-related issues of global interest among partners in the development process, including the private sector, NGOs, academia and parliamentarians. It should pursue this open dialogue to help shape international economic relations in the twenty-first century.

13. The Conference has brought together development partners to propose practical and meaningful solutions. It has inspired reasons for hope in the possibility of creating a fairer and better world economic system, alleviating poverty, redressing imbalances, and improving the protection of our environment, as well as offering all people security and growing opportunities to raise their standards of living and lead a full and meaningful life. We have agreed on a Plan of Action to guide this process. We must all now work together to turn hope into reality.

Recent Evolution of Foreign Direct Investment in Latin America and the Caribbean

This document presents an overview of foreign direct investment (FDI) in Latin America and the Caribbean during recent years. It provides data on the amount of external financing and foreign direct investment our region has received (during the 1990's the first quadruplicated and the second multiplied by seven) and examines the role of FDI. According to its author, FDI can grant dynamism to the market and spur social development as long as investors adopt a long-range view and are commitment to the recipient country's development and the latter apply an economic policy that eases investors' insertion within the global development process.

La reciente evolución de las inversiones extranjeras directas en América Latina y el Caribe

En este trabajo se presenta un panorama de las inversiones extranjeras directas en América Latina y el Caribe en los últimos años. Además de aportar numerosos datos sobre los montos que ha recibido nuestra región por concepto de financiamiento externo y por inversiones extranjeras directas (el primero se cuadruplicó y las segundas se multiplicaron por siete durante la década de los 90), señala un conjunto de conclusiones sobre el papel de las IED, las cuales, según su autor, pueden tener un efecto dinamizador del mercado y el desarrollo social siempre que haya, por parte de los inversores, una visión de largo plazo comprometida con el desarrollo del país en el cual se insertan; y por parte de los países receptores, una política económica que facilite la articulación de aquellos dentro del proceso global de desarrollo.

L'évolution récente des investissements étrangers directs en Amérique latine et dans les Caraïbes

Ce travail offre un panorama des investissements étrangers directs en Amérique latine et dans les Caraïbes ces dernières années. Fournissant de nombreuses informations sur les montants reçus par notre région au titre du financement extérieur et des investissements directs d'origine étrangère (le premier s'est multiplié par quatre et les seconds par sept dans les années 90), il présente une série de conclusions sur le rôle de ce type d' investissements qui, d'après l'auteur, peuvent exercer un effet stimulateur sur le marché et le développement social à condition que les investisseurs aient le projet à long terme de contribuer au développement des pays récepteurs et que ces derniers appliquent une politique économique facilitant leur insertion dans le processus global de développement.

A recente evolução dos investimentos estrangeiros diretos na América Latina e no Caribe

Neste trabalho apresenta-se um panorama dos investimentos estrangeiros diretos na América Latina e no Caribe nos últimos anos. Além dos diversos dados sobre os montantes recebidos pela nossa região por financiamento externo e por investimentos estrangeiros diretos (o primeiro se quadruplicou e os segundos se multiplicaram por sete durante a década de 90), ressalta um conjunto de conclusões sobre o papel das IED, as quais, segundo o autor, podem ter um efeito dinamizador do mercado e do desenvolvimento social, caso haja, por parte dos inversionistas, uma visão a longo prazo comprometida com o desenvolvimento do país no qual estejam inseridos; e por parte dos países receptores, uma política econômica que facilite a articulação daqueles dentro do processo global de desenvolvimento.

Recent Evolution of Foreign Direct Investments in Latin America and the Caribbean*

Alfredo Eric Calcagno
Advisor, SELA's Permanent Secretariat

I. An Overview of Latin America and the Caribbean's External Financing

1. The characteristics of capital flows

Latin America and the Caribbean's external financing has gone through several different stages. From 1950 to 1973, the net movement of foreign capital was slight; it grew rapidly from 1974 to 1981 mainly in the form of international bank loans; and from 1982 to 1990 the voluntary flow of capital temporarily stopped. The 1980's were thus the "lost" decade in Latin America that witnessed a huge flow of capital towards the industrialized countries. Finally, from 1990 onwards, there was a significant increase in annual capital flows as they rose from almost US$ 22 billion in 1990 to US$ 116 billion in 1997; they declined slightly in 1998.

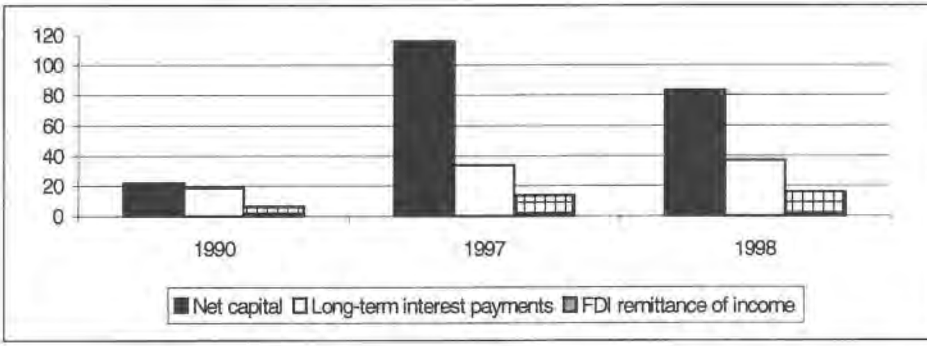
One important feature of these capital flows is that from 1994 onwards they consisted mainly of direct investments which reached US$ 57.9 billion in 1998 (having reached only US$ 8.2 billion in 1990). Although slightly less than in the previous year, they constituted 70% of the net capital flows that entered Latin America and the Caribbean that year (in 1990 they only represented 37% and 20% in 1993). In 1998, the public debt and the public guaranteed debt level increased and the non-guaranteed private debt level fell.

Chart 1 shows the relative importance of the net resources received compared with the long-term interest payments made and the remission of FDI profits for the years 1990, 1997 and 1998. Note the high level of net income in 1997 and 1998 compared with 1990 and the persistent rise of long-term interest payments and FDI remittance of income.

Chart 1

Latin America and the Caribbean: Net capital flows and net interest and income payments, 1990, 1997 and 1998

(In billions of dollars)



Source: The World Bank, **Global Development Finance 1999**, Washington D.C., 1999, page 166 and 167.

"The World Bank points out that the financial crisis worsened the medium-term prospects of foreign capital flows to developing countries."

These results were influenced during the period 1990-1997 by the large influx of external capital and by the successive crises in South East Asia, Russia and Brazil in 1998. The crisis in Brazil was the one that most affected the regional economy as Brazil is the largest economy in Latin America. Access to the international financial market continues to be difficult and expensive. Moreover, countries have to deal with the maturity of their debts which they can only cover with new issues and they are thus forced to go into further debt at higher interest rates.

2. The financial crisis

A global assessment of the situation reveals that in the short term Russia's moratorium marks the start of a new stage in the financial crisis as it brought about significant investor desertion from emerging markets in general and a greater concentration of investment in developed countries instead. The failure to institute any kind of financial rescue operation for Russia like the ones undertaken in the cases of the Mexican and South East Asian crises had a strong impact because it weakened, maybe permanently, the belief that there is an implicit guarantee for investments made in emerging markets and this increased the risk ratings of these markets (spreads soared[1] and investments fell).

The World Bank points out that the financial crisis worsened the medium-term prospects of foreign capital flows to developing countries. However, it also points out that nearly all the basic determinants of the capital flows of 1990 remain: "improvements in policies and relatively low capital-labour ratios in developing countries; technological innovations; investments in information gathering (e.g. market conditions, legal requirements for access and monitoring agreements); the removal of barriers to capital flows; the demographic trends in industrial countries that will tend to increase current account surpluses in several lender countries; and the convergence of economic policies in industrial countries which increased the benefits of the diversification of investment in emerging economies."[2]

The World Bank analysis highlights the slow growth of global product and international trade, the lowering of the ratings of debtor nations and corporate debtors that reduces access to credit; the perception of greater risks in light of the moratorium of Russia's debt and the Brazilian crisis; the higher cost of new financing, and the receiver countries' huge concerns regarding the reverse of capital flows as the main causes of the decline of capital flows to the region. It states, however, that a distinction needs to be made between the different kinds of flows: those from capital markets decreased while foreign direct investment became the dominant form of financing.[3]

It is also necessary to consider the influence that developed countries' economic policies had on the developing countries' crises. The current account balance of the developed countries recorded a surplus of US$64 billion in 1997, and a deficit of US$9 billion in 1998 as a result of the collapse of Asian imports. These figures were mainly influenced by the increase of the U.S. deficit which rose from US$155 billion in 1997 to US$235 billion in 1998. The net flow of long-term capital to developing countries as a whole fell from US$338 billion in 1997 to US$275 billion in 1998; in Latin America in the same two-year period capital flows fell from US$116 billion to US$83.2 billion.[4]

II. Foreign Direct Investment in Latin America and the Caribbean

1. The Volume of FDI

From 1994 onwards the flow of FDI into Latin America and the Caribbean increased substantially: their net annual balances more than quadrupled in the past five years; hence 39% of the accumulated foreign capital in the region flowed into the region between 1994 and 1997.

2. The volume of accumulated FDI

Accumulated FDI in Latin America and the Caribbean tripled between 1990 and 1997 to reach US$375.414 billion: a third of this amount corresponds to Brazil, and almost another third to Mexico and Argentina together, while a quarter of this total corresponds to investments made in Bermuda, Chile, Colombia, Peru and Venezuela. As is discussed in section 3 of chapter III, a large portion of the more recent investments correspond to purchases made by foreign investors of both private and public national companies that are engaged in a wide range of economic activities in the region.

3. The flows of foreign direct investment

3.1. The amounts invested

FDI flows in Latin America and the Caribbean have three main characteristics: First, their extraordinary increase in this decade from US$6.8 billion in 1990 to US$53.2 billion in 1998. Second, their inflexibility despite the international financial crisis, especially compared with the other kinds of capital flows. Third, their concentration in a few countries which has become an historical trend: in 1998, 70% of FDI in Latin America went to Brazil, Mexico and Argentina.

3.2. The sectoral distribution of foreign direct investment

The destination of FDI in Latin America varies according to country: it mainly goes to the mining and oil sectors in Bolivia, Chile and Ecuador; the manufacturing industry in Brazil and Mexico; and the services sector in Argentina, Mexico and Peru. This is shown with some limitations in table 5 (FDI in the Venezuelan oil industry and the Panamanian banking sector are not included, for example).

4. The origins of the investments

4.1. Investments per area of origin and target country

Nearly all FDI in Latin America and the Caribbean comes from Europe and the United States. During the period 1995-1997 FDI to the region was highly concentrated: almost half of European and U.S. investment in the region was directed towards Brazil and Argentina; European investment predominated in Colombia and Venezuela, and U.S. investment in Mexico. There was a certain increase in Latin American intra-regional investment.

As far as the origins of FDI are concerned, the United States is the main source. European investment, however, has increased steadily and reached the same level as U.S. investment in 1997. Of the European countries, Spain, followed by the United Kingdom are the most important sources.

4.2. United States investments in Latin America and the Caribbean

The United States is the main external investor in Latin America and the Caribbean. There were some changes during the 1990's in the strategies used by transnational investment corporations who did not entirely abandon their traditional ways, but did make some alterations. First they pursued greater efficiency with a view to improving their competitiveness in the U.S. market which was being threatened by external competitors (such as the Asians). U.S. companies therefore built new plants in Latin America and the Caribbean, mainly in the automotive sector (especially in Mexico) and the electronics and clothing sectors (in the Caribbean basin). At the same time, other transnationals invested in the services sector to take advantage of local markets that had a huge growth potential; they did this by participating in the privatisation processes underway in Latin American countries, particularly in the electrical energy, natural gas and telecommunications sectors.[5]

“The United States is the main external investor in Latin America and the Caribbean while the largest flows of European FDI come from Spain and the United Kingdom.”

In 1997, accumulated U.S. investment in Latin America was US$97.5 billion (excluding the tax havens); of these, US$35.7 billion had been invested in Brazil, US$25.4 billion in Mexico, US$9.7 billion in Argentina, and US$5.2 billion in Venezuela.[6] The manufacturing sector received over half the total of accumulated U.S. investment in the region.

4.3. European investment in Latin America and the Caribbean

European investment in the region grew significantly during the 1990's. Since 1994, the largest flows have come from Spain and the United Kingdom. Spanish investment increased substantially in 1999 with the purchase of the largest Argentine oil company (YPF) for the sum of US$14.855 billion (see section 5.1 of this chapter).

According to the IDB/IRELA report, Latin America and the Caribbean is the main non-OECD investment destination for some European countries, especially for Germany (60%), the Netherlands (55%) and the United Kingdom (44%). In 1995 and 1996, the manufacturing industry received 82% of British investment, 81% of Dutch, 72% of Italian and 67% of German investment. Through the privatisation processes, the services sector has received significant Spanish and French investment. European investment is expected to increase further in the next few years with the implementation of the agreements signed by the European Union with Mercosur (December 1995), with Chile (June 1996) and with Mexico (December 1997).[7]

5. Spain's investments in Latin America and the Caribbean

Foreign direct investment from Spain increased with its incorporation into the European Union in 1986 and intensified in the 1990's. Spanish FDI in the region between 1990 and 1997 is shown in table 1.

The main trends of Spanish investment in Latin America during the 1990's respond to an expansion of financial activities, a significant increase in investment in the oil and telecommunications sectors and particularly in the air transport and electrical energy sectors, but little investment in manufacturing industries. Spanish investments have consisted, above all, in the purchase or increase in the capital of existing companies

Table 1

Latin America and the Caribbean: geographical distribution of investment flows from Spain, 1990-1997

(In millions of dollars)

	Annual average 1990-94	1995	1996	1997
Latin America and the Caribbean	532	1,031	1,516	5,653
Argentina	55	555	610	1,375
Brazil	22	73	37	606
Chile	35	-24	82	1,448
Colombia	15	30	376	914
Mexico	60	207	94	249
Peru	323	170	275	...
Venezuela	20	19	42	1,061
Offshore centres	182	-154	581	...
Other countries	19	6	64	668
Total	733	883	2,161	6,321

Source: **IDB/IRELA**, "Inversión extranjera directa en América Latina: la perspectiva de los principales inversores", Madrid, 1998 and Paris, 1999.

and many investments were made through holding companies. These transactions were mainly carried out by a small number of oligopolistic Spanish companies or state-owned.[8]

As far as Latin America is concerned, Spanish investment meant significant additional income at a time of severe financial problems, and through them production structures were modernized, especially in the services sector.

From the Spanish investors' viewpoint, these investments meant taking advantage of the markets in question, the low prices of the companies bought, the possibilities of rising profits and the increase of the companies' size which places them in a strong position to fend off possible hostile takeover bids.[9]

The direct investments made by Spanish companies in the oil, telecommunications, electrical energy and banking sectors are examined below.

5.1. Investments in the oil industry

The largest individual FDI transaction carried out by a Spanish company was Repsol's purchase of Yacimientos Petrolíferos Fiscales de la Argentina (YPF) for the sum of US$14.855 billion. The transaction was carried out through a Stock Take-Over Bid which gave Repsol 97.46% of YPF's capital stock. In order to finance the purchase, Repsol increased its capital by 5.655 billion euros. Moreover, through its affiliate, Repsol International Finance, it issued 3.250 billion euros in "floating rate notes" and it also launched a eurobond through this affiliate for one billion euros. In February 1999 it released an issue for 1.4 billion euros. In total, during the period 1998-1999, Repsol issued 5.65 billion euros on the euromarket.

YPF is the largest company in Argentina. In 1997, it recorded sales of US$ 6.139 billion and profits of US$ 875.9 million. It is engaged in oil and gas exploration and production in Indonesia; oil and gas production in Ecuador, Bolivia and Venezuela; and oil and gas production and gas processing in the United States. It holds exploitation rights in Peru, Guyana, the Gulf of Mexico, Algeria, Chile and Brazil. It has the largest network of service stations in Argentina and also operates several stations in Chile. It owns a gas refinery and gas stations in Peru as well as an oil refinery and service stations in Brazil. It distributes natural gas in Buenos Aires, Bogotá, Rio de Janeiro and Monterrey. It also has power stations in Tucumán (Argentina) and Dock Sud (near to Buenos Aires).

5.2. Investments in telecommunications

Telefónica Internacional de España is one of the main telecommunications operators in Latin America and has important settings in Argentina, Brazil, Chile and Peru.

Telefónica de Argentina is the main telecommunications operator in Argentina with 3,929,000 fixed telephone lines and 793,000 cellular clients. It shares the monopoly of the long distance service with Telecom.

In Brazil, Telefónica Internacional de España is the largest foreign telephone operator. It came out the winner in the privatisation of the Brazilian State's shares in Telebras and participates in the running of 4 of the 12 operators that were put up for sale. It has 7,844,000 fixed lines in service as well as 1,585,000 cellular lines.

In Chile, it controls Compañía de Teléfonos de Chile (it holds 43.6% of the shares), which is the leading company in the Chilean telephone business. It is the main operator of local telephone services with 2,700,000 fixed lines as well as 600,000 mobile phone clients and 280,000 cable TV clients.

In Peru, it won the privatization of 35% of CPT and Entel-Peru in March 1994. These companies merged and currently operate as Telefónica de Perú with 2,000,000 fixed lines, 400,000 cellular clients and 300,000 cable TV clients.

5.3. Investments in electrical energy

The Endesa group has expanded its activities to include several Latin American countries. In Chile it bought a majority share in the Enersis group which has 5.4 million clients. In Peru, Etevensa has an installed power of 500MW. In Argentina, it holds 40% of Edenor shares and over 50% of Edesur stock. These are the two companies that distribute electrical energy to the city of Buenos Aires and surrounding areas; Sociedad Inversora Dock Sur (36% of which is owned by Endesa) has a 796 MW power station. In Brazil, Endesa has shares in the company Coelce, that distributes energy in Ceara State. In Central America, it participates in the Siepac Project, which aims to integrate the countries' six electrical companies.

5.4. Investments in the banking system

Spanish banks substantially increased their presence in several Latin American countries in the 1990's. They invested around 10 billion dollars in an expansion strategy, of which 4.5 billion were invested by Banco Bilbao Vizcaya, 4 billion by Banco Santander and 1.3 billion by Banco Central Hispano (the last two merged at the beginning of 1999). Their strategy consisted of expanding their main activity, commercial banking, by establishing a presence in as many markets as possible. They also diversified their activities and sought new ventures, most notably, investment banking, insurance and especially participation in the administration of pension funds. They also acquired shares in non-financial businesses, especially in activities which other Spanish investors are involved in such as telecommunications and energy.[10]

III. The Interrelation between Foreign Direct Investment and National Development Strategies

1. The reasons behind foreign capital flows: the investors' viewpoint

Several reasons have been put forward for the renewal of foreign capital flows to Latin America in 1991.

The predominant line of thought is that the flow of capital to a country depends on the orthodox policies of stability and external opening that are implemented; in other words countries that have best "done what they had to do" as far as the International Monetary Fund (IMF) is concerned are the ones who will receive the greatest amount of capital. The reasoning behind this is simple: whoever offers greater security, gets more.

A World Bank study revealed that the main motive behind foreign capital flows to developing countries, including Latin America and the Caribbean, is the expectation of high rates of return in the long term and the diversification of risks.[11] This is based on the economic theory that rates of return will be higher in countries with little accumulated capital as long as there is a certain level of juridical and political security, skilled labour, adequate infrastructure and other external economies[12] (in other words, countries that have little capital but the characteristics of developed countries).

The adjustment programmes implemented in developing countries under IMF supervision have ensured the liberalisation of trade and the financial sector as well as the deregulation of investments.

On average, the returns on foreign direct investments in 8 Latin American countries rose from 10% in 1971-1980 to 14.5% in 1981-1990, to 17.3% in 1991-1995 and 17.4% in 1996.

Diversifying risks is another factor that encourages investment in emerging countries. According to the World Bank, stock market behaviour in developed and developing countries differ from one another: generally-speaking, when one rises the other falls. This fact, which is taken into consideration by the risk inherent in developing countries' markets, led to a greater capitalisation of emerging countries' stock markets.

A hypothetical allocation of portfolio funds in international markets would recommend investing 41% in emerging markets in order to maximise profits and minimise risks. Currently, however, only 12 to 14% of international portfolio investments are made in emerging markets.[13]

Those who disagree with the orthodox neo-liberal explanations for capital flows to emerging markets claim that they arose mainly due to the modification of the general framework of the financial system which changed the supply of capital as a whole (the short-term interest rate fell worldwide); in other words, they claim that the flow of capital does not depend much on the internal policies of recipient countries. They also question the belief that opening up the country's capital account leads to greater stability or greater growth in the countries that do so. They maintain that the deregulation of capital accounts and internal financial systems have brought about rapid expansions and sudden drops in economic growth, internal credit and exchange rates.[14]

As far as the incentive orthodox policies represent to investment, these analysts point out that in 1998, 43% of the net FDI invested in developing countries was invested in China (US$42 billion) and Brazil (US$24 billion), two countries who did not fulfill "good conduct" requirements: the former is socialist and the State sector dominates the economy, and the latter suffers from severe financial problems that led it to a crisis at the beginning of 1999 and it still had not signed the stand-by agreement with the IMF. This implies that other factors such as the size of the market or high interest rates and high rates of return have been the main motivation behind foreign direct investment.

Another incentive for investing in developing countries is investor belief in the existence of an implicit guarantee which means that ultimately, the international financial system will lend the affected countries the resources they need to get out of a crisis. As we mentioned in chapter I, this kind of insurance came into operation in the cases of Mexico and East Asia, but not in the case of Russia, and it is being increasingly questioned at the international level. It does not seem logical for investors to run excessive risks as if they were protected by an international insurance through which loans are made to the countries in which crises arise so that the governments can repay the affected investors. In the end, this means that those who invested imprudently get back what they are owed, while the governments of the countries that underwent a crisis end up more in debt and with the obligation to make new adjustments.

Finally, the creation of export processing zones and industrial tax free zones was another factor that boosted foreign direct investment, though to a far lesser degree than privatisation. This was particularly the case in Mexico, Central America and the Caribbean Basin where these modalities constituted an export platform that enabled the low cost of local labour and access to United States' import quotas to be exploited.[15]

2. The receiving countries' situation

The United Nations Conference on Trade and Development (UNCTAD) drew up a scheme that lists the main determinants of foreign direct investment in terms of the receiving country's situation. In addition to the general economic situation and the facilitation of the business in question, the economic determinants that encourage foreign direct investment and the conditions that investors seek are described. Investors are found to seek three main things: markets, resources/capital and efficiency.

As far as markets are concerned, investors take the market's size, its growth, its expansion potential, access to regional and global markets, specific consumer preferences and market structure into account.

As far as natural resources and capital are concerned, investors are interested in the existence of raw materials, the cost of unskilled and skilled labour, the state of technology and physical infrastructure (ports, roads, energy, telecommunications).

In the pursuit of efficiency, investors are concerned about the costs of resources and capital when adjusted for labour productivity; the costs of other inputs (transport and communications and the costs of intermediate products), and membership of regional integration agreements that might generate networks of corporate ties.[16]

3. Investment modalities

Capital flowed into Latin America and the Caribbean through various mechanisms during the 1990's: the purchase of existing State and privately-owned assets, investments in privatisations, large investment projects and the modernisation of foreign companies already set up in the country. Since 1997, the purchase of existing companies has been on the rise again. According to UNCTAD data, there was a sharp increase in the merger and acquisition of established companies from US$11.374 billion in 1995 to US$43.809 billion in 1997 (see table 2).

Table 2
Latin America and the Caribbean: company mergers and acquisitions, 1990, 1995, 1996 and 1997
(In millions of dollars)

	1990	1995	1996	1997
Latin America and the Caribbean	8,426	11,374	22,257	43,809
Argentina	5,541	2,346	3,907	5,900
Brazil	57	2,557	4,675	12,568
Mexico	1,681	1,435	2,847	8,034
Venezuela	45	234	4,161	6,734
Other countries 1/	1,102	4,802	6,672	10,573

Source: **UNCTAD, World Investment Report 1998: Trends and Determinants,** New York and Geneva, 1998, page 414 and 415.
1/ Includes tax havens.

Several conclusions can be drawn from table 2. First, that mergers and acquisitions represented 75% of all foreign direct investments in 1997; second, that 28% of investments made through the purchase of existing assets and mergers were made in Brazil, and 18% in Mexico.

Moreover, on the basis of information obtained from the financial press, it has been calculated that of the total US$ 43.809 billion invested, around US$ 25 billion corresponded to the purchase of private sector assets. It should be pointed out that both in the case of public and private company acquisitions, some takeover transactions do not involve the entry of external capital as they are financed by resources obtained on the capital markets of the country in which the transaction is carried out.[17] The targets of these acquisitions are mainly in the banking, manufacturing, mining and oil sectors.

Another determining factor in FDI is the privatisation of State companies. During the initial stages, these investments consist of the purchase of State companies and later their modernization and extension, mainly through the reinvestment of profits. The privatised companies at first were mainly in the telecommunications, electrical energy and airline sectors; later companies in other sectors, such as road infrastructure, ports and mail were also privatised.[18] According to the financial press, 63 companies were privatised in 1997 for a total value of US$ 28.46 billion, and 34 State companies were sold in 1998 for US$ 38.056 billion, mainly in the telecommunications and electricity sectors. Three quarters of the region's privatisations in 1998 were carried out in Brazil. Most of these involved foreign capital although local business groups also participated in some cases.

4. The interrelation between internal economic policy and foreign direct investment

4.1. The advantages of foreign direct investment

The significant volume of external capital that entered Latin America and the Caribbean during the 1990's had clearly positive effects as far as the direct investments were concerned; and in the case of portfolio investments, these solved short term balance of payment problems, but they also caused the overvaluation of national currency and increased the volatility of capital.

Generally-speaking, with the elimination or reduction of external restrictions, substantially greater use could be made of production capacity which has direct repercussions on production, income and employment. "The recovery is mainly based on the fact that the greater availability of external savings has made it possible to finance the main imports associated with an increase in the use of the existing production capacity which, through its effect on production and income, reactivates aggregate demand"[19]. In the particular case of foreign direct investments, it has also involved the implementation of modernization processes in many industries and basic services.

Obviously, foreign investments are instruments of economic policy that should contribute towards creating a desirable production structure and stimulate economic activity as much as possible. A regulatory framework should be set up to facilitate the pursuit of these objectives and to eliminate the flaws that have obstructed the positive effects of some of these investments in the past.

4.2. Dangers to avoid

4.2.1. Excessive imports

The first risk that needs to be avoided is that the foreign companies turn into "import machines". They obviously have an "import vocation" that makes them tend to bring in equipment, parts and pieces that could be made locally from their country of origin. Local economic policy can sometimes encourage this even: in the case of open economies with overvalued local currencies, transnational companies tend to turn into large importers which weakens the "backwards" link with the national production system.

In extreme cases, the 'enclave' problems that arose in several of the region's countries at the end of the 19th century could crop up again: the mining and plantation exploits of that time are examples of large investments that contributed next to nothing to local economies beyond what they paid in taxes. The tax system foreign investments are subject to is therefore highly important. Care must be taken to ensure that the tax benefits granted to foreign companies to encourage them to invest in the region are not so great as to drastically reduce or even annul the economic benefits the country is supposed to obtain from the investment.

Industrial and mining policies that are based on national suppliers can be developed. In the case of the automobile industry, for example, in several countries parts are produced locally which reduces imports to a minimum. Similarly, in the mining industry, which is receiving a new boost thanks to foreign direct investment, transnational companies, who are by nature importers, should be obliged to use national or Latin American equipment. Otherwise they will only activate the economy directly during the initial stages of construction and then indirectly through tax payments.

4.2.2. Replacing internal with external savings

The replacement of internal savings by external ones is another subject that is related to foreign investments in general and something which occurred in some Latin American countries as the result of various factors.[20] The entry of external capital can lead to greater economic activity and encourage savings, but it also leads to the appreciation of assets (through the accompanying stock and real estate market booms) which raises consumption and reduces savings. The effect is multiplied if national currency is overvalued and import tariffs are lowered as this facilitates access to imported goods, and also if there is greater liquidity and internal loans are consumption-oriented. Under these circumstances, the relative importance (and in some cases the absolute value) of national savings thus fades. According to ECLAC studies, "an increase in external savings by one percentage point above average reduces national savings by about half a percentage point of GDP".[21]

In order to reverse such a trend, policies must be implemented to ensure the flow of external capital does not substitute national savings, but complements them instead. Among other measures: credit should be oriented towards productive investment rather than consumption; the exchange rate should be compatible with a minimum profitability for the producers of saleable goods and not represent an import subsidy; reasonable tariff protection should be established; monetary and fiscal policies should be used to keep internal spending in line with a goal for the economy's current account balance and GDP growth; the country should be selective about the kind and amount of capital it allows to enter so that medium and long-term investments in productive activities are encouraged and the entry of short-term, highly volatile capital is restricted.

"One of the main incentives for foreign direct investment is the possibility of remitting profits immediately and without restrictions."

4.2.3. Remittance of income that affect the balance of payments

One of the main incentives for foreign direct investment is the possibility of remitting profits immediately and without restrictions. This condition, which is obviously desirable as far as the investor is concerned, needs to be reconciled with the situation of the balance of payments of the country that has to remit the profits. Remittance of income have in fact increased from 4.2% of the exports of goods and services in 1991 to 7.5% in 1998. In terms of amounts, this represents an increase from US$6.4 billion in 1991 to US$ 24.6 billion in 1998. Obviously, the significance of these figures depends on the increased export capacity the new investments may have generated, but in any case, this is an economic policy matter that needs to be considered.

In order to prevent the negative effects of remittances of income, tax policy instruments that impose higher taxes on paid-out profits than reinvested ones have been successfully used in some cases (e.g. the Chilean tax reform of the 1980's).

4.2.4. The difficulty of carrying out original technological research

The possibility of carrying out technological research that is suited to their needs is very important to Latin American countries. Without making a sharp distinction, pure research is mainly carried out in public institutions or by research companies and in universities, while applied research is carried out in the companies that take advantage of it. Under the privatisation process, the State companies that had the wherewithal necessary for undertaking research have disappeared; national companies generally do not have the size, resources or interest needed for undertaking such research, and foreign companies use the research that is carried out in their head offices. This makes it very difficult to develop new technologies in Latin American countries.

IV. Legal Frameworks and International Agreements

Most of the restrictions that affected foreign direct investments in Latin America and the Caribbean were eliminated during the 1990's, and investment promotion measures were implemented instead. Some of the basic features of the relevant legal schemes currently in force are examined below.

1. National treatment

The principle of equal treatment for national and foreign capital has been applied in the legislation of all Latin American and Caribbean countries and has even been awarded constitutional status in some.

2. Registration and authorisation

Most countries eliminated the prior authorization requirement for all foreign investment and only maintained it for specific cases. Procedures have been speeded up in the cases where prior authorization is still required; in some cases, a procedural time limit is set after which authorization is automatic.

In most countries, foreign investments need to be registered in order to benefit from the guarantees regarding the repatriation of capital and the remittance of profits. The obligation to register foreign investments has been eliminated in Argentina and Bolivia.

3. Capital and remittance of income

In general, the laws restricting the immediate and unlimited remittance of profits and capital have been eliminated. There are some exceptions: in Nicaragua and Uruguay, capital can only be repatriated after three years; in Chile there is a one year limitation (capital increases have no remittance time limits); in Argentina and Brazil, the right to remittance can be restricted in the case of exceptional balance of payments problems; in Colombia, restrictions are authorized when existing reserves fall lower than three months worth of imports, and special requirements can be established for the oil and mining sectors;

in Costa Rica capital can be repatriated after two years at a rate of 25% per annum.

4. Specific incentives for foreign capital

In some cases, foreign direct investment promotion not only means the removal of restrictions, but also the establishment of incentives and privileges. The most commonly used incentives are tax incentives (preferential tax rates or tax exemptions, accelerated depreciation, preferential treatment regarding social security payments, special treatment for reinvestment); financial incentives (donations, preferential loans, loan guarantees); tariff incentives (lower barriers, exemption of import duties); debt for equity swaps (benefits from the external debt discount); industrial tax free zones; and other similar measures such as infrastructure support, preferential State contracts and the provision of some services.[22]

5. The opening up of "reserved" sectors to foreign investment

In most Latin American and Caribbean countries, the restrictions regarding the investment of foreign capital in certain areas which were reserved for the public or national private sector have been removed. There are still limitations in some countries, however, regarding foreign investment in mass media, defence and national security, atomic energy, oil and some means of transport.

Foreign direct investments are now generally permitted in the areas of natural resource extraction and exploitation (such as mining, fishing, agriculture and forestry), in the financial sector and in the services sector, especially in telecommunications, electrical energy and real estate.

In most countries, oil sector activities have been reserved for national, state-owned oil companies (except in Argentina, in which YPF, the largest company in the country was privatised). However, private capital, both national and foreign, is allowed to carry out exploration and production activities, , except in Mexico whose constitution specifically forbids it. Restrictions remain regarding refining activities in most countries, and as far as petrochemical activities are concerned, only Mexico and Bolivia have established restrictions.

All countries opened up the financial sector to foreign capital participation. In Brazil the Central Bank is entitled to authorize such participation on a case by case basis.' In Mexico, foreign

"

In most Latin American and Caribbean countries, the restrictions regarding the investment of foreign capital in certain areas which were reserved for the public or national private sector have been removed.

"

capital participation in the privatisation of the banking sector was restricted at the beginning of the decade, but encouraged when difficulties arose during the crisis of 1994.

The services sector was opened up under the privatisation process.

6. Performance requirements

In general, no performance conditions, such as geographical location, sector, technological content, obligations to export, etc. are imposed on foreign capital. Any such conditions tend to refer to the number of foreign employees in the company. In certain cases, preference is given in government contracting to bidders that incorporate the highest proportion of national inputs.

7. Tax systems

In most Latin American countries, tax systems have tended to become simpler, to broaden indirect taxation and to extend the tax base to include income and profits while lowering rates in general. Value added tax has become widespread and many exemptions have been eliminated. More effective tax collection was awarded more importance under these policies than the redistribution aspect of taxation.

The general trend was to "neutralize" fiscal policy, although some fiscal measures to promote specific activities were applied.[23]

In the case of exports, tax incentives have been lowered to a minimum; minimal export promotion measures, such as the elimination or lowering of import duties on inputs and tax exemptions for exportable products, remain in force.

Furthermore, export product processing zones were created in which free trade policies are applied without the status of the rest of the country being affected. The Mexican *maquiladora* industry is an example of this.

The signing of agreements that eliminate double taxation has also encouraged foreign direct investment. These bilateral agreements make transactions more transparent and mean that investors no longer have to use tax havens in order to avoid double taxation.

Latin American countries should co-ordinate their actions regarding taxation so as to not be caught up in a competition in which transnational companies negotiate separately with each one of them and threaten to move to the neighbouring country unless they are granted higher tax incentives. This is particularly important in the case of subregional integration processes. Speaking as the then vice president of the World Bank, Joseph Stiglitz, commented that "there is concern that competition to attract investment (by foreign companies) will lead to bitter trade wars among the members of MERCOSUR"; one of the dangers of tax incentives, which Stiglitz calls "bribes", "is that the greatest benefits are reaped not by the receiving countries but by the companies themselves".[24]

8. International agreements

National laws to support foreign investment were complemented by bilateral, multilateral and regional international agreements which aim to protect investors and provide them with guarantees. In some countries, instruments of legal protection were established, such as law-contracts in Chile, investment contracts in Nicaragua and stability agreements in Peru.[25] Most of the region's countries also joined international guarantee systems, such as the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and the International Centre for Investment-Related Dispute Settlement (CIRDS).[26] Several Latin American and Caribbean countries are covered by the Corporation of Private Investments Abroad of the United States government which, among other services, insures against political risks.

V. Intra-Regional Investments

1. Recent developments[27]

Historically, the predominant relations of Latin America and Caribbean countries have been their bilateral relations with developed countries while reciprocal ties within the region have been of secondary importance. In the 1990's, the strong relationship with the United States and Europe continued,[28] but intra-regional trade intensified and though still weak when considered within the overall context, Latin American transnational undertakings and the amount of reciprocal investment did increase. These relations are still very new, but they are producing important changes in the property owned by companies, how they act and their field of action. Although the new owners are mostly transnational companies from developed countries, there are some purchases, joint ventures and mergers taking place among companies from different Latin American countries.

During the 1990's, foreign capital flows to Latin America increased substantially as did intra-regional capital flows. Both companies and governments participated in the latter. Several transnational corporations have a large accumulated capital which they use in several countries at the same time (by participating in privatisation processes in developing countries, for example). Latin American governments and companies, on the other hand, used international bond issues on a large scale.

The factors that boost regional investments depend on the general investment situation on the one hand (greater opening and liquidity) and on specific Latin American circumstances on the other, such as regional integration. Some of the Latin American factors as such, specifically the bilateral and subregional agreements, some of the characteristics of intra-regional investments and the establishment of Latin American transnational companies, are outlined below.

"*The factors that boost regional investments depend on the general investment situation on the one hand and on specific Latin American circumstances on the other, such as regional integration.*"

2. Estimated accumulated capital

2.1. Information problems

Determining the flow and accumulated amount of intra-regional capital poses several difficulties. First, the registration system for the entry and exit of capital varies from country to country. In Argentina and Costa Rica no records are kept, and registration is not mandatory in Bolivia. Incoming capital (investments and reinvestments) is registered in Brazil, but outgoing capital does not have to be registered. In Chile, foreign direct investment has to be authorized and registered, but Chilean direct investments abroad are only registered if they are made through the formal exchange market. There are registration systems in Colombia and Ecuador, and registration is obligatory in Peru. There are registration requirements in Venezuela, but oil investments are not registered.[29]

Another problem is that different methodologies are often used which means that in Chile, for example, the Foreign Investment Committee's figures are three times higher than the Central Bank's. This is because among other things, the Committee includes items the Central Bank does not take into account such as investment-related loans (the Central Bank considers them loans, not foreign direct investment) and also takes the companies' press declarations into account.

Finally, investments are often attributed to tax havens which are only transitory bases for the investment. This makes it impossible to draw up coherent comparative tables, and the information given in this section is therefore only valid for the country in question.

2.2. A general overview of intra-regional investments

The existing information on intra-Latin America external investments is presented in this section. As was pointed out above, it is extremely difficult to present a regional outlook as there are no systematic records, and data gathering and presentation methods are not always compatible. An initial presentation of the available figures was included in the report submitted by the Permanent Secretariat of SELA to the XXIII Ordinary Meeting of the Latin American Council.[30]

The first aspect to be determined in order to get the subject into perspective, is the relative importance of intra-regional investment with respect to investment from all over the world. In 1995, intra-regional foreign investment reached 9.1% of total foreign investment in 15 Latin American countries. This percentage would be considerably higher if investments made from tax havens in the Caribbean were also included, but then we would lose sight of the investments' origins. According to the Directory drawn up by ECLAC, in 1990, intra-regional investments represented 5.4% of a much lower total. In the next five years, intra-regional investments tripled, while overall investments doubled. It should be pointed out that these figures are conjectural estimates based on the combination of the total accumulated foreign investment calculated by UNCTAD for each country and the percentage of intra-regional investment per country worked out by ECLAC. The methodologies used in these studies were not specified in either of them. They do at least, however, provide an indication of size.

3. Estimated capital flows

Direct investments made by Latin American and Caribbean countries in the region during 1997 consisted mainly of the purchase of existing assets. According to ECLAC estimates, which are based on financial press figures, Latin American investors invested US$8.365 billion in the privatisation processes and the purchase of local private companies (58% and 42%, respectively).[31]

The largest participators in these investments were: Chile (38%), Mexico (27%) and Argentina (24%). The main recipients were Venezuela, Brazil, Colombia and Argentina.

4. Bilateral and subregional agreements

As we mentioned in chapter IV, the principle of non-discrimination for foreign investors is currently accepted in Latin America and the Caribbean, prior authorisation is no longer required for investments, except in Chile and Uruguay, the number of sectors reserved for the State or national companies has been reduced, the unlimited remission of profits and debt for equity swaps are now permitted, and export processing zones and industrial tax free zones have been created. Furthermore a wide range of incentives such tax, financial, tariff and debt for equity incentives, infrastructure support, preferential State contracts and the provision of some services are now available.[32]

As far as dispute settlements are concerned, Latin American countries are abandoning the traditional form of handling them which followed the "Calvo doctrine" according to which a foreigner can only appeal to the courts of the country that receives the investment and must abide by its legislation. Now in many countries, international arbitration or the jurisdiction of the investment's country of origin are accepted.

The increasingly equal treatment accorded foreign investment means that the promotion of regional and subregional integration has to use specific preferences such as measures pertaining to market access, tax, subsidies, loans and State purchases.

Since the beginning of the 1990's, Latin American and Caribbean countries have signed a large number of bilateral investment treaties that promote and protect investments and regulate the establishment of binational companies. Their texts adhere to the Code of Conduct for Transnational Businesses proposed by the Transnational Business Centre of the United Nations. Argentina has signed treaties with Bolivia, Canada, Chile, Ecuador, Jamaica and Venezuela; Barbados with Venezuela; Bolivia with Chile, Ecuador and Peru; Brazil with Chile and Venezuela; Chile with Ecuador, Paraguay, Uruguay and Venezuela; Colombia with Peru; Ecuador with El Salvador, Paraguay and Venezuela; and Paraguay with Peru.[33] These treaties normally establish the principle of national treatment and include a most-favoured nation clause. They also establish the right to repatriate capital, subrogation in the case of the payment of insurance against non-commercial risks (such as nationalisation and expropriation) and norms for settling disputes. Furthermore, they reserve the right to grant more favourable treatment than the treatment granted in extra-regional agreements.[34]

In addition to these bilateral agreements, the subregional integration processes have dictated norms to unify the treatment of foreign investments. Investments in the Andean Community are covered by decision 291 of 1991, which does distinguish between national, subregional and foreign investors, but does not grant Andean Community investors greater privileges than investors from third countries and generally follows the norms for liberalizing investment. The rules established under the Andean Multilateral Business System, that were modified by decision 292 in 1991, also tend to make foreign companies receive the same treatment as national companies in the member countries of the Andean Community.

In MERCOSUR, the Protocol of Colonia (decision 11 of 1993) promotes and protects the member countries' investments. It establishes that Mercosur investors shall receive treatment that is no less favourable than the treatment given national investors or investors from third countries. Controversies between an investor and a Contracting Party can be taken to the competent courts of the country that receives the investment or to international arbitration, as the investor chooses. Some transitory exceptions to national treatment have been established, and investments from third countries are regulated.

The Economic Complementation Agreement signed by Colombia, Mexico and Venezuela (The Group of Three) establishes similar norms to those set forth in the bilateral investment promotion and protection agreements regarding national treatment, most-favoured nation status, the non-establishment of performance conditions, reserved sectors, expropriation and compensation, transfers and dispute settlements. Some economic complementation agreements signed within the ALADI framework that are only partial in scope include clauses regarding the treatment of investments, but they generally only establish the principle of promoting and facilitating reciprocal investment and sometimes include double taxation agreements.[35]

VI. Characteristics of Intra-Regional Investments

1. Intra-regional investment modalities

The motivation and modalities of foreign direct investments from Latin American countries during the 1990's varied according the countries involved. A comparative table of the main characteristics of the direct investments made abroad by Argentina, Brazil, Chile and Mexico (who made most of these kinds of transactions) is given below.

Main characteristics of foreign direct investments from Latin American countries in the 1990's

Characteristics	Argentina	Brazil	Chile	Mexico
Accumulated assets abroad, 1997 (millions of US$ and % of GDP a/	6,800 2.7% of GDP	8,730 1.1% of GDP	13,636 b/ 17.7% of GDP	7,300-10,000 1.8-2.5% of GDP
Type of company	Economic groups, without financial ties, mainly family-owned, specialised or only slightly diversified.	Economic groups, some with financial ties, mainly family-owned and with a medium or high level of diversification. Medium-sized family-owned firms. State companies.	Economic groups, several with financial ties "traditional" ones (diversified and family-owned) and "new" ones (generally more specialised and involving institutional investors). State companies.	Family-owned economic groups, some with financial ties, with varying degrees of diversification and vertical integration.
Main investment sectors	Mainly: steel, oil, food. Others: drinks, engineering and construction, pharmaceuticals, petrochemicals, telecommunications, information services, banks, construction materials.	Mainly: banks, engineering and construction, oil. Others: automobile parts, textiles, steel, drinks, aero-navigation, transport equipment, construction material, paper, petrochemicals, health services.	Mainly: electrical energy, food, drinks, forestry-wood-cellulose-paper complex, banks, business. Others: health, social welfare, metallurgy (especially copper), oil.	Mainly: cement, agro-biotechnology, food, drinks, banks. Others: glass, television, engineering and construction, hotels, telephones, transport equipment.
Push for going abroad	Exhaustion of internal market's potential. High market share in domestic market. Insufficient availability of raw materials (oil, petrochemicals).	Slow down of domestic market growth. Insufficiency of raw materials (oil), technological-organizational changes and changes in the regulatory framework of the user industry (automobile/spare parts).	Limited size of domestic market. Lowering of country's risk rating which provides access to international credit markets. Prompt implementation of structural reforms.	Limitations of the internal market. High market share in domestic market. Arrival of FDI and competition in local market. Access to international financial markets after the financial reform of 1990.
Destination countries	Mainly: Latin America, neighbouring countries, especially Brazil, Andean countries, Mexico. Others: United States, Italy, Malaysia, Indonesia, the Philippines.	Industrial sector: MERCOSUR (mainly Argentina), Portugal, Chile, Canada, Germany, France, United States. Other sectors: MERCOSUR, rest of Latin America, United States, Portugal, Africa, United Kingdom, tax havens, Middle East, Malaysia, Singapore.	Mainly South America (Argentina, Peru, Brazil, Colombia), Mexico, tax havens.	Mainly: United States. Important: Latin America (Central America and the Caribbean, Argentina, Colombia, Venezuela, Chile, Peru, Bolivia). Others: United Kingdom, Spain, Indonesia, the Philippines, Canada.

Other characteristics	Long previous history of internationalisation of local firms, both during the agro-export model and the import substitution industrial model (including medium-size firms in the case of the latter)	Between the mid 1980's and the beginning of the 1990's significant investments were made in manufacturing firms (automobile parts, textiles, metal-mechanics, containers) in developed countries. During the 90's, part of the FDI operations in developed countries were dismantled (textiles, containers). Several automobile parts and metal-mechanics firms that had led this FDI wave were then absorbed by transnational companies.	The close interrelation between obtaining international resources and internationalising among Chilean groups suggests that Chile has become a kind of "recycling centre" for international funds. Considering the country's low risk rating and the efficiency and competitiveness demonstrated by several Chilean companies, these effectively act as channels for funds coming from abroad that are then invested outside their country of origin.	FDI transactions carried out by local firms since the beginning of the 1990's. This trend was mainly oriented towards the United States and Latin America in 'mature' products and boosted by access to international funds.

Source: Daniel Chudnovsky and Gustavo López, "Las empresas multinacionales de América Latina: características, evolución y perspectivas", in **Las multinacionales latinoamericanas: sus estrategias en un mundo globalizado**, Fondo de Cultura Económica, Buenos Aires, 1999, page 364 and 365.

a/ With the exception of Brazil, estimates are not of FDI as calculated for balance of payments purposes, but as the total foreign assets owned by the companies of each country abroad. Estimates are conservative minimums for all four countries. b/ Data up to July (in all other cases, up to December).

2. The formation of Latin American transnational companies

The current stage of economic globalisation is marked by the hegemony of transnational companies. The absence of Latin American transnationals is notable. In some cases, Latin American companies are big enough to become transnationals, but very few have actually done so. In the last five years, however, within the significant movement of mergers and acquisitions that has arisen, Latin American companies have been seen to increase their activities outside their national borders, especially in other countries in the region.

The interaction among transnational companies, State companies and large volumes of national private capital have shaped the course of economic development and power relations. Until the 1980's, in many cases, basic services and infrastructure was the State's responsibility, national private groups had a growing influence, transnational companies had their specializations, and as a whole, the business structure was a "closed" one. National economic groups were generally-speaking, far from transnationalization.

"*The current stage of economic globalisation is marked by the hegemony of transnational companies.*"

With respect to Argentina, Brazil and Uruguay, it has been said that "in MERCOSUR, the core of truly conglomerate-like large economic groups consists of only about 20 organisations. These groups, with few exceptions, are very different from the Japanese *keiretsus* or the Korean *chaebols* which are characterized by a multisectorial business structure in which a nucleus which spreads new technologies is linked up with other companies in the group that have "mature" technology (metal-mechanics, automobile, petrochemicals) and combined with a banking nucleus that is linked to industrial strategies and finances the group's long term investments. The Argentine, Brazilian and Uruguayan conglomerates are "collections of companies" rather than articulated technological-financial set-ups, although more advanced experiences of articulation have been undertaken in Brazil".[36]

The situation has changed in the 1990's. The privatisation process substantially reduced the State sector and notably reduced the State's role as a producer of goods and services in most countries. The exploitation of natural resources are notable exceptions and have been retained under State control in Mexico, Venezuela and Chile (through Pemex, Petróleos de Venezuela and Codelco, respectively), although different kinds of private capital participation are being developed.

Privatisation produced a change in economic power which (to different degrees in different countries) was transferred to national and transnational conglomerates, with the former predominating. Since 1994, there has been a wave of purchases of large national companies and banks by transnationals. Several large national private companies opted to specialize and transnationalise rather than to become a conglomerate. More recently, many of them have been sold to transnational companies. In other cases, especially in Argentina, the big economic groups sold shares in the companies that did not form the core of their business so as to invest in their basic activities in other countries, especially in Latin America. In some cases, they have also sold companies engaged in their main activity.

In any case, intra-regional foreign investment is carried out by companies that are broadening their scope. The novelty in Mercosur is that now not only are the large national or transnational companies that are established in Latin American countries participating, but also medium-size ones.

VII. Conclusions

Throughout this work we have analysed the recent evolution of foreign direct investment (FDI) in Latin America and the Caribbean.

The first conclusion, which is quite obvious, is that the nature, size, function and action of FDI in national production systems is one of the main issues in the global development of Latin American countries. Its influence goes beyond the merely economic, as it not only boosts the growth of certain economic sectors and geographical areas, FDI also, and above all, plays a fundamental role in defining the basic course of economic growth and the economic power structure which is nearly always reflected at the political level as well. The foreign investment process is therefore not neutral: it unleashes important productive processes and also shapes part of the power elite.

A second conclusion that can be drawn is an auspicious one. Long-term and production-oriented direct investments now form the mainstream of capital flows to Latin America. In terms of amounts, FDI exceed portfolio investments and many are intended to generate benefits in the short term regardless of production results, and this is likely to be the predominant trend for some time to come.

A third point is that investments do not fall into a vacuum and that their significance varies according to whether they are effectively linked up with the overall development process or dissociated from it. When it is included as part of a national growth strategy, new capital can make a highly valuable contribution. If an important part of the receiving country's economic policy is decided in light of the investors' requirements, however, it will be difficult to implement a coherent development process. Which of these two situations arises depends on the existing power structure, the governments' political will and room for action and the kind of investors involved and their political influence.

Another point is that distinctions must be drawn between different kinds of investments in terms of their purpose, whether they involve the creation of new productive installations or the purchase of existing ones, whether they are oriented towards the internal market or exports; whether they come with financing or obtain it in the country in which they are made, and what kind of technological contribution they make.

In order to evaluate each investment, its objectives and its consequences should be considered in great detail. One example of this is Intel's investment in Costa Rica. Intel built a plant to assemble and test semiconductors which, with a US$500 million investment, will produce US$ 3 billion in exports in the year 2000, more than Costa Rica's traditional exports. Moreover, this activity has a great multiplying potential (new investments for 40 Intel suppliers are already being planned).

Another important distinction is between FDI that is used to purchase existing companies and FDI that involves setting up new productive activities. In the case of the former, the income of foreign exchange will have a positive effect on the balance of payments (at least during the early stages) and could result in the modernization of the activity in question; but the impact on production is obviously greater if new industries are created.

> "*Foreign direct investments on the one hand require a long term vision on the investors' part that involves commitment with the development of the country they invest in.*"

Another distinction should be made between FDI that is intended to mainly take advantage of the internal market of the receiving country and FDI that is export-oriented. The wave of privatisations brought about the purchase of a large number of existing companies that served the internal market, such as telecommunications and electrical service companies. In order to increase the local multiplying effect, the regional supply of inputs could be negotiated. In other cases (such as Intel), the export of a significant portion of production to markets controlled by the investor could be negotiated. It is important to compensate the "importer vocation" of transnational companies whose remittance (that have become significantly substantial in the 1990's) should be compared with the contribution of the exports their investment generates.[37]

The form of financing is also important. The situation changes if the foreign investor finances itself in its country of origin or on the international capital market, or if it obtains its resources from the financial market of the country it invests in.

The technological contribution involved is another issue that can affect FDI. It is essential for developing countries to be able to carry out basic and applied research that enables them to participate in the "knowledge revolution" that is sweeping the world today. This will not be possible if the technology that is applied is exclusively developed in a few core countries, and the buying up of the large public and private Latin American companies leaves the region without any organisations of its own that are large enough to finance and apply technical innovations.

We may conclude by saying that foreign direct investments on the one hand require a long term vision on the investors' part that involves commitment with the development of the country they invest in; and an economic policy that facilitates FDI's articulation within the overall development process on the other. In this way FDI can become a fundamental element in the development of the country in which it is made while also fulfilling its mission of expanding the markets and generating profits for the investor's country.

Notes

** The full text of this documents, with all its tables and charts, is available through SELA's website* **www.sela.org,** *Documents/ Financing and Foreign Investment Section.*

1. Average spreads of the Brady bonds rose from a low of 350 points at the end of September 1997 to 600 points by the end of October the same year.

2. The World Bank Group, Global Development Finance 1999, op. cit., *page 33.*

3. Ibid., *pages 13 and 14.*

4. Ibid., *page 12 onwards.*

5. See ECLAC, **La inversión extranjera en América Latina y el Caribe**, Informe 1998, *Santiago de Chile, 1998, page 205.*

6. See Inter-American Development Bank (IDB), **Foreign Direct Investment in Latin America: Perspectives of the Major Investors. An Update,** *Paris, 1999, page 63.*

7. See Inter-American Development Bank and Instituto de Relaciones Europeo-latinoamericanas (IRELA), **Inversión extranjera directa en América Latina: la perspectiva de los principales inversores,** *Madrid, 1998, page 49.*

8. See BID/IRELA, **Inversión extranjera directa en América Latina: la perspectiva de los principales inversores,** *Madrid, 1998 and Paris, 1999.*

9. See Alvaro Calderón, **La inversión extranjera directa de España en América Latina,** *Santiago de Chile, 1999 (unpublished).*

10. See the excellent analysis made by Alvaro Calderón and Ramón Casilda, **La banca española en América Latina: inversiones, estrategias y perspectivas,** *Santiago de Chile, 1999.*

11. See World Bank, **Private Capital Flows to Developing Countries. The Road to Financial Integration,** *Oxford University Press, New York, 1997, page 85 onwards.*

12. Ibid., *pages 85 and 86.*

13. See World Bank, **Private Capital Flows to Developing Countries**, op. cit., *page 89 and 90.*

14. See Report by the Working Group of the United Nations Executive Committee for Economic and Social Affairs, "Hacia una nueva arquitectura financiera internacional", *United Nations, Santiago de Chile, January 1999, page 59.*

15. See ECLAC, **La inversión extranjera en América Latina y el Caribe,** Informe 1995, *Santiago de Chile, 1995, page 101.*

16. See United Nations Conference on Trade and Development, **World Investment Report 1998: Trends and Determinants,** *New York and Geneva, 1998, page 91.*

17. See ECLAC, **La inversión extranjera en América Latina y el Caribe, Informe 1998,** *Santiago de Chile, 1998, page 52 onwards.*

18. See SELA, **Financiamiento externo y deuda externa en América Latina y el Caribe en 1997;** *and* América Economía, *1997-1998 Edition; and* América Economía, *March 11, 1999, page 47.*

19. See Robert Devlin, Ricardo Ffrench-Davis y Stephany Griffith-Jones, "Repunte de las corrientes de capital y el desarrollo: implicaciones para las políticas económicas", in **Las nuevas corrientes financieras hacia la América Latina. Fuentes, efectos y políticas,** *Fondo de Cultura Económica, Chile-Mexico, 1995, page 323.*

20. See ECLAC, **Quince años de desempeño económico. América Latina y el Caribe, 1980-1995**, *Santiago de Chile, 1996, page 50.*

21. Ibid., *pág. 51.*

22. See ECLAC, "Promoción de los vínculos económicos entre los esquemas de integración de América Latina y el Caribe", *document written by Eduardo Gana, Santiago de Chile, 1997, pages 72 and 73.*

23. In Bolivia, Brazil and Chile tax exemptions are granted to boost the development of certain neglected areas; investment is generally given incentives in Brazil; certain sectors in Venezuela are supported with tax exemptions; tax incentives are granted for mining activities in Argentina and for oil, electricity, banking and mining activities in Peru.

24. Declarations made by Joseph Stiglitz, reported by Reuters, *August 26, 1998.*

25. See ECLAC, **La inversión extranjera en América Latina y el Caribe,** Informe 1995, *Santiago de Chile, 1995, page 101.*

26. MIGA was created in 1988 and offers investors guarantees against non-commercial risks. CIRDS is an autonomous international institution with links to the World Bank Group. It was established by the Convention on the settlement of investment-related disputes between States and nationals of other States of 1966; it provides conciliation and arbitration services.

27. Regarding intra-regional capital flows in Latin America and the Caribbean, see SELA, Financiamiento externo, deuda externa y flujos de capital intrarregional en América Latina y el Caribe, *Port of Spain, 1997, page 44 onwards.*

28. In Chile and Peru, trade relations with Asia are also important, especially with Japan.

29. See ECLAC, **Inversión extranjera directa intrarregional en América Latina y el Caribe: una propuesta para su seguimiento,** *Santiago de Chile, December 1996, page 61 to 65.*

30. See SELA, **Financiamiento externo, deuda externa y flujos de capital intrarregional en América Latina y el Caribe,** *Port of Spain, Trinidad and Tobago, October 1997.*

31. See ECLAC, **La inversión extranjera en América Latina y el Caribe,** *1998, Santiago de Chile, 1998, page 139 and 140.*

32. See ECLAC, **Promoción de los vínculos económicos entre los esquemas de integración de América Latina y el Caribe,** *document prepared by Eduardo Gana,* op. cit., *page 71 onwards.*

33. See Organization of American States, Acuerdos bilaterales de inversión del Hemisferio Occidental, *Washington, 1996.*

34. See Armando Di Filippo, "Regionalismo abierto y empresas *latinoamericanas", in* Pensamiento Iberoamericano, *No. 26, July-December 1994, page 123 and 124.*

35. See ECLAC, **Promoción de los vínculos económicos entre los esquemas de integración de América Latina y el Caribe,** op. cit., *page 72 and 73; and Eduardo Gana, "Los cambios estructurales en la integración latinoamericana y caribeña", in* Pensamiento Iberoamericano, *No. 26, July-December 1994, page 67 to 93.*

36. See Luis Stolovich, "Los grupos económicos de Argentina, Brasil y Uruguay", in Revista Mexicana de Sociología, *October-December 1995, page 181.*

37. See Luiz Claudio Marinho, **Estrategia aperturista y transnacionales,** *ECLAC, Economic Projections Centre, June 1997.*

The Mexico-EU Agreement: Key Factor of a Comprehensive Association

Mexico is the first country in Latin America to sign a free trade agreement with the European Union, thus enjoying the position of becoming the point of entry to the world's two main trade blocs, Europe and North America. In this analysis IRELA reviews the process that led to the signing of the agreement as well of its scope and possible economic and political effects. Under the agreement the parties agree to liberalize 95% of their trade flows within a period of ten years.

El acuerdo México-UE, pieza clave de una asociación integral

México se convirtió en el primer país de América Latina en suscribir un tratado de libre comercio con la Unión Europea, con lo cual se coloca también en la posición privilegiada a nivel internacional de ser puerta de entrada a los dos principales bloques comerciales del mundo: Europa y América del Norte. En este informe del IRELA se hace un recuento del proceso que condujo a la firma del acuerdo, mediante el cual las partes liberalizarán el 95 % de sus intercambios comerciales en un plazo de diez años, así como de su alcance y posibles efectos tanto en lo comercial como en lo político.

L'accord Mexique-UE, élément clé d'une association intégrale

Le Mexique est le premier pays d'Amérique latine qui ait signé un accord de libre-échange avec l'Union européenne, ce qui le place dans une position privilégiée au niveau international car il se voit ainsi ouvrir l'accès aux deux principaux blocs commerciaux mondiaux, l'Europe et l'Amérique du Nord. Ce rapport de l'IRELA décrit le processus aboutissant à la signature de cet accord qui permettra la libéralisation de 95% des échanges commerciaux entre les parties d'ici dix ans ; il en analyse en outre la portée et les répercussions éventuelles aux plans commercial et politique.

O acordo México-UE, peça chave de uma associação integral

O México converteu-se no primeiro país da América Latina em subscrever um tratado de livre comércio com a União Européia que, a nível internacional, deu-lhe a posição privilegiada de ser porta de entrada para os dois principais blocos comerciais do mundo: Europa e América do Norte. Neste relatório do IRELA apresenta-se um resumo do processo que levou à assinatura do acordo, mediante o qual as partes liberalizarão 95% de seus intercâmbios comerciais no prazo de 10 anos, bem como seu alcance e possíveis efeitos tanto no aspeto comercial como no político.

The Mexico-EU Trade Agreement: Key to a Comprehensive Association?

Instituto de Relaciones Europeo-Latinoamericanas (IRELA)

Introduction

On 24 November 1999, and after nine rounds of talks, Mexico and the European Union (EU) concluded the first free trade negotiations held between a Latin American country and the EU. The agreement covers all trade-related matters included in the Economic Partnership, Political Coordination and Cooperation Agreement (or Global Agreement) signed by Mexico and the EU on 8 December 1997. EU Trade Commissioner Pascal Lamy described the accord, which is in effect a genuine free trade agreement (FTA), as the most wide-ranging ever negotiated by the EU. Although it excludes certain sensitive products, 95% of trade will be liberalized within ten years. Other key aspects of economic relations will also be liberalized, including public procurement, capital flows and services, while a trade dispute settlement mechanism will be set up. The FTA will be formally adopted at a meeting of the Mexico-EU Joint Council to be held during the European Council meeting in Lisbon on 23-24 March and will come into effect on 1 July 2000.

> *"This agreement will place Mexico in a privileged position internationally by making it a point of entry to the world's two main trading blocs."*

The new FTA will not only help Mexico diversify its economic relations, but will place the country in a privileged position internationally by making it a point of entry to the world's two main trading blocs. This should enhance Mexico's appeal as a target for foreign direct investment (FDI); make it possible for the country to reverse its growing trade deficit with the EU, which reached $7.8 billion in 1998; and is the first step towards free trade between Latin America and the EU as a whole. From the EU's perspective, and in the framework of the association process, the completion of the trade talks is highly important: duty-free access to the largest Latin American import market is practically guaranteed under the same terms as those prevailing for US and Canadian companies. The Mexico-EU FTA will also increase the regional business opportunities of European companies in North America. With the free trade accord, Mexico and the EU have embarked on an irreversible process of association.

I. The Path to Free Trade

In contrast to the talks on political and cooperation issues, which were negotiated over two days (10-11 June 1997), the Mexico-EU FTA agreement took twelve and a half months to conclude, almost six months less than the North American Free Trade Agreement (NAFTA). Nine rounds of talks were held between 9 November 1998 and 24 November 1999 with the venue alternating (except on one occasion) between Mexico City and Brussels. The agenda was divided into five areas: market access, customs procedures and rules of origin, public procurement, investment, and institutional issues (including competition, dispute settlement and countervailing measures).

In the first three rounds, draft proposals on the various aspects of the agreement were exchanged and progress was made on less controversial issues: public procurement, intellectual property, competition and norms. In the third round, lists covering tariff exemptions and rules of origin (the two pillars of free trade) were exchanged. From the fourth round, talks began on perhaps the most difficult issue: the so-called NAFTA parity for duty-free trade in industrial goods.

In line with its negotiating mandate, the European Commission's main aim was to liberalize access for its industrial exports to Mexico by the same year as the United States and Canada (2003). The EU initially proposed to liberalize industrial trade, which accounts for some 93% of total bilateral trade in goods, in two stages: 82% immediately and the remaining 18% in 2003. Mexico responded by proposing a much longer timetable: immediately liberalizing 42.5% of EU industrial exports to Mexico, with a further 6% being liberalized in 2003 and the remainder in several stages until 2009. According to some analysts, the social costs for Mexico of completely opening up its industrial goods market to the United States, Canada and Europe simultaneously was too high, especially for domestic small- and medium-sized enterprises (SMEs).

On 14 April 1999, during the fourth round, Mexico's refusal to make concessions led the EU to threaten to pull out of the negotiations and seek a new mandate from the Council. On 17 May 1999, and prior to the start of the fifth round, Mexico tabled a fresh proposal and offered to liberalize about 60% of EU industrial exports by 2003 and the rest in stages until 2007. Tariffs on European goods not liberalized before 2003 would also be significantly reduced. Mexico's new offer broke the deadlock, but talks on the issue continued. The negotiations became increasingly complex from the sixth round since the more sensitive issues were examined in greater detail: market access, rules of origin, capital flows and payments and services.

Negotiations were intense in the seventh and eighth rounds. Agreement on most issues had therefore been reached by the ninth round. This, however, proved to be one of the most difficult phases of talks, mainly because the formula used by the two parties to examine the issue of rules of origin consisted of case-by-case negotiations. The ninth and last round, which was extended to accommodate a number of extraordinary meetings, finally ended in Brussels on 24 November 1999. That afternoon, Mexican Trade Secretary Herminio Blanco and EU Trade Commissioner Pascal Lamy welcomed the conclusion of the trade talks by declaring the agreement an unprecedented pact in which both parties had emerged as winners.

"*The FTA between Mexico and the EU has few historical precedents.*"

II. The Substance of the Trade Agreement

The FTA between Mexico and the EU has few historical precedents. It is unique for four key reasons: it is the first FTA the EU has negotiated with a Latin-American country; the agreement is the first free trade link between a NAFTA member and the 15 EU countries; it is the most ambitious FTA yet negotiated by the EU; and this is the first time that Mexico – a country that is particularly sensitive on the issues of non-intervention and defence of national sovereignty has negotiated an FTA that is directly conditional on political factors, such as respect for democratic principles and human rights.

The new agreement will liberalize 95% EU-Mexican goods trade and eliminate almost all barriers to trade in services. It will therefore be compatible with the guidelines on free trade agreements established by the World Trade Organization (WTO): Article XXIV of the General Agreement on Tariffs and Trade (GATT) as well as Article V of the General Agreement on Trade in Services (GATS). The main elements of the agreement consist of:

- **Trade in industrial goods**. Mexico will liberalize 52% of its industrial products in 2003 (47% when the FTA comes into effect and a further 5% in 2003). The remaining 48% will be liberalized either in 2005 or 2007, depending on the sector. During this period, Mexican tariffs on these remaining products will not exceed 5%. The EU will liberalize all its industrial sectors in 2003 (82% when the agreement comes into force and 18% on 1 January 2003). On rules of origin, the Europeans secured agreement that EU regulations will prevail for most industrial goods, while Mexico obtained temporary exemptions from EU regulations to allow certain sectors such as automobiles, auto parts and clothing to adapt to EU standards.

- **Trade in the agricultural and fisheries sector.** Some 62% of agricultural trade, which accounts for 7% of total bilateral trade, will be liberalized. Tariffs on more sensitive goods in these two sectors will be liberalized over a ten-year period. Important European products, such as wine, alcoholic beverages and olive oil, will benefit in the short term, as will major Mexican agricultural exports such as concentrated orange juice, avocados and cut flowers. The agreement will liberalize 99% of trade (by volume) in fish products. EU rules of origin will apply to all agricultural and fisheries products covered by the agreement.
- **Trade in services.** The FTA includes an agreement on economic integration in services. Trade in services will be liberalized over a maximum ten-year period and will cover all sectors except audiovisual services, cabotage and air transport. The agreement will cover a number of particularly important sectors, including financial services, telecommunications, distribution, energy, tourism and the environment.
- **Investments and related payments.** Under the package agreed in this area, the liberalization of investments will begin in three years, while related payments will be progressively liberalized once the agreement enters into force. This package was agreed following a compromise agreement between the leaders of the EU Member States.
- **Public procurement.** The EU will have the same access to Mexican public procurement as NAFTA members. Those sectors covered by the agreement and of particular importance to the EU include petrochemicals (where acquisitions made by PEMEX are worth noting), electricity and construction. Mexico, meanwhile, will obtain similar preferential treatment to the European market for public procurement as that granted to its main partners under the WTO's Public Procurement Agreement. The chapter will come into effect once the two sides finish exchanging information on their public procurement markets.
- **Intellectual property, competition and dispute settlement.** Under the agreement, intellectual property will be protected (including patents, trademarks and copyright) according to the highest international standards. A special committee will be established to ensure compliance with international regulations in this area. With regards to competition, the agreement includes cooperation mechanisms to guarantee compliance with the two signatories' legislation. Also of particular note is the creation of a dispute settlement mechanism to ensure fulfillment of all aspects of the agreement.

The results of the EU-Mexico FTA talks were preliminarily approved by the Council of Ministers on 14 February 2000. On 16 March, the European Parliament (EP) expressed its support for the agreement (by 322 votes in favour, 55 against, and 10 abstentions). On the basis of this approval, and its eventual ratification by the Mexican Senate, the two sides will formally adopt the texts that make up the FTA on 23-24 March. The agreement will come into force on 1 July 2000. The Mexico-EU Joint Council – created through an interim agreement on trade signed on 8 December 1997 and effective from 1 July 1998 – will decide when those sections of the FTA that fall under Community competence (free trade of goods, public procurement and competition) enter into force. Those areas in which competence is shared (services, investment and related payments) must await full ratification of the Association Agreement before they come into force.

III. Possible Impact on Trade Flows

Trade between Mexico and the EU could increase substantially from current levels. In the 1990s, the EU's share of Mexican trade fell significantly, from 11% in 1990 to 6% in 1998. For its part, Mexico plays only a small part in EU trade: in 1998 Mexico ranked 21 as a market for EU exports and 34 as a source of EU imports. This is mainly because the two sides have signed several FTAs and preferential agreements that place EU exporters to Mexico and Mexican exporters to the European market at a disadvantage. The new Mexico-EU FTA will progressively eliminate this situation.

The new FTA could double Mexican-EU trade within five years, bringing the total to $34 billion in 2004. This would be possible if the average annual growth rate of bilateral trade were to increase from 10% (the annual growth rate between 1994 and 1999) to 15% in the period 2000-2004. This is a realistic figure, since most bilateral trade will be duty-free in 2003. It is also likely that the new agreement will result in Mexicans spending more dollars per capita on imports from the EU than from MERCOSUR by 2005. In 1998, Mexican expenditure per capita on EU imports ($113) was already reaching the level spent on purchases from MERCOSUR ($136). It is worth noting that Mexico's import capacity has increased sharply in recent years. In 1998, Mexico imported more ($104.1 billion) than the four MERCOSUR countries combined ($96.7 billion).

According to some analysts, it is precisely Mexican imports from Europe (mainly intermediate and capital goods) that will increase in the short term. They argue that Mexican exports to the EU will tend to react more slowly in the initial phases of free trade because of the higher internationalization of European SMEs relative to their Mexican counterparts; the fact that a large share of Mexican exports consist of intra-firm trade by US multinationals; and the high level of economic integration between Mexico and the United States, which leads Mexican exporters with little cross-border experience to view the United States as their natural market abroad.

Although the new agreement takes into account the imbalances between Mexico and the EU during the period of tariff reduction and rules of origin, there is a risk that Mexico's deficit with the EU will increase in the short term. In 1998, the deficit rose for the third year running, reaching its highest level this decade ($7.8 billion). In the medium term, however, the new FTA is likely both to increase bilateral trade and improve Mexico's trade balance with the EU. Mexico currently enjoys trade surpluses with all those countries with which it has signed FTAs except Canada. The new agreement will also boost intra-firm business opportunities for companies in Mexico and the EU, especially in sectors such as automobiles, machinery and equipment, white goods and electrical accessories. This could serve to increase trade in both directions.

Trade between Mexico and the EU has the potential to grow significantly, which free trade is likely to boost for a variety of reasons:

- the EU is the world's largest exporter, with a 19% share of global exports, and the second largest importer, accounting for 17% of the total;
- Mexico is the world's eighth biggest exporter, accounting for 43% of Latin American trade;
- the average tariff applied by Mexico on EU imports is 12%, compared to 2% for US goods;
- Mexican imports to the EU currently pay higher tariffs than those goods originating from the European Economic Area (EEA), Central and Eastern Europe, and the African, Caribbean and Pacific (ACP) group of former European colonies, and
- Mexican trade with some EU countries, such as Denmark, Finland, Greece, Portugal and Sweden, is still virtually non-existent, representing only 0.3% of Mexico's trade in 1998.

The new FTA is likely to increase the EU's share of Mexican trade, although in the short and medium term it is not expected to surpass the levels recorded in the mid 1980s, when the EU accounted for 20% of Mexico's trade. The impact of the FTA on helping to diversify Mexico's trade might not be as great as expected. According to some observers, the diversifying effect of the FTA is often exaggerated. The negotiation of free trade with the EU represents a great success for Mexico and bilateral trade will grow faster, but the United States is likely to continue to account for 75%-80% of Mexico's trade. This is for four main reasons:

- The United States's import capacity acts as a key pole of attraction for Mexico. The United States has for many years been the world's leading importer: US imports reached a record high of $1.23 trillion in 1999. The US economy also consumes more than it produces, recording large annual trade deficits. These favour Mexican exports. In 1999, the US trade deficit exceeded $270 billion, and Mexican exports to the United States reached $120 billion.
- Geo-economic factors, including a common border of over 3,000 kilometres, will continue to exert a fundamental influence on Mexican-US trade patterns. The twin effects of geographical proximity and NAFTA have engendered an extensive business, distribution and services network between Mexico and the United States which is forming the basis for even stronger economic integration.
- Mexico's strategy of negotiating FTAs with third countries has not led to increased diversification. Between 1992 and 1998, Mexico signed FTAs with seven countries apart from the United States (Bolivia, Canada, Chile, Colombia, Costa Rica, Nicaragua and Venezuela). During this period, however, the US share of Mexican trade rose from 75.2% to 80.6%.
- The level of informal integration between Mexico and the EU –which is key to economic integration– remains limited. In contrast, informal integration (social, cultural, business, industrial, academic, etc.) between Mexico and the United States is increasingly high. According to the University of Michigan's World Values Survey, in 1990 60% of Mexicans supported forming a single country with the United States if this would lead to an improvement in their quality of life. From that point of view, Europe seems even more remote.

IV. Investment Flows

The new FTA between Mexico and the EU might have a particularly strong impact on European FDI flows to Mexico. Over recent years, European companies have accounted for a relatively small share of FDI in Mexico, particularly compared to the United States. According to statistics from the European Commission's delegation in Mexico, between 1994 and 1998 EU FDI in Mexico accounted for only a fifth of the total. When the FTA comes into force, this is likely to change. If the new FTA helps divert 5% of European FDI that is not normally directed at Mexico ($19 billion according to 1998 figures), annual FDI inflows to Mexico could reach $29 billion (an amount similar to FDI into Brazil in 1998).

The agreement might convince European companies that already export to the United States to do so from Mexico to take advantage of low-cost Mexican workers, who are productive in many industries in NAFTA. Significantly, the United States is the EU's main extra-regional market. In 1998, EU exports to the United States surpassed $160 billion. In key sectors, such as automobiles and electrical machinery (the EU's two main exports in 1998 in value terms), Mexico could become increasingly important for European firms wishing to break into the US market.

"The agreement might convince European companies that already export to the United States to do so from Mexico to take advantage of low-cost Mexican workers."

Mexico will also become more attractive for European companies already based in the United States. The agreement might convince some of these firms to relocate part of their production or whole plants from the United States to Mexico. These companies would not only benefit from duty free access to the US market and cheap labour, but by moving production to Mexico they could import their European inputs without paying the tariffs levied on those inputs produced in the United States. Such companies – which could be the main beneficiaries of the FTA – have considerable influence in the region: in 1998, European FDI in the United States tripled to $155 billion, thus confirming the EU's position as the main source of FDI in the US economy.

Some large US firms that export to the EU – and that already have production plants in Mexico and use sufficient amounts of local factors of production – might also benefit by exporting to Europe from Mexico. This could be one of the most important outcomes of the new FTA in terms of trade and investment flows between Mexico and the EU: an increase in intra-firm trade, which would lead to sectoral interdependence as it did to a much greater extent in NAFTA. Mexico's FTA with the EU, and that signed with Israel on 6 March 2000, mean that a company can now export duty-free from Mexico to 23 different countries in North America, Latin America, Europe and the Middle East. Mexico's comparative advantage as one of the most attractive locations for multinationals will increase still further when free trade negotiations are concluded with another 12 Latin American countries and with Japan.

The FTA will strengthen Mexico's and the EU's position as defenders of free trade. Investors should also gain confidence in Mexico's economic prospects, although, as with any new agreement, this FTA brings with it controversy, risk and challenges. It has been argued, for example, that Mexico might be liberalizing its sensitive markets too quickly, to the detriment of its SMEs, and that the EU will be hard pressed to deny similar privileges to countries in MERCOSUR or Chile. Whatever the outcome, three issues will be key to ensuring the FTA's success:

that Mexico's trade deficit with the EU does not increase further as a result of the agreement; that social interaction, and with it levels of informal integration, between the two parties increase; and that the more underdeveloped zones in Mexico and the EU eventually benefit from the agreement's positive impact on trade and investment.

V. The Political Dimension of the Association

The FTA is part of the bilateral Economic Partnership, Political Coordination and Cooperation Agreement. The global agreement will not only establish a free trade zone and set up a long term economic association between the two parties, but will go beyond economic issues by institutionalizing political links and modernizing cooperation schemes. Unlike NAFTA, this is a comprehensive accord that incorporates almost all aspects of relations between the two parties.

> "*The agreement will go beyond economic issues by institutionalizing political links and modernizing cooperation schemes.*"

Although the international community has tended to focus on the trade side of the global agreement, and particularly on the fact that this is the first FTA between a Latin American country and the EU, its political implications are also highly significant. According to some observers, it is short-sighted to view the EU's interest in Mexico as purely economic. The geo-political features of the global agreement are important in light of the growing presence and influence of the United States in Latin America. One of the most interesting implications of the agreement is the increasing relevance of Latin America for the EU in global politics.

One of the major political implications of the agreement is the increase in political and institutional interaction between Mexico and the EU. It is likely that links between the main political actors in both regions will multiply. The process of association has already led to stronger political ties at the highest level. In 1999, five EU leaders made state visits to Mexico. Since the association talks with the EU began on 10 June 1997, President Ernesto Zedillo has made seven trips to several European cities, thereby creating the political momentum to negotiate the agreement.

Given the institutionalized political dialogue and the new cooperation schemes that are likely to develop with the global agreement, Mexican and EU governments will increasingly discuss a greater number of issues of common interest. The agreement is also likely to create an environment in which more delicate issues can be discussed in greater detail. Mexico and the EU will probably increase the political dialogue and cooperation on sensitive issues such as drug trafficking, money laundering, human rights, public administration and democracy.

Prospects for a EU-MERCOSUR Free Trade Agreement
According to the author, in the short term probably not much progress will be made on the negotiations between the European Union and MERCOSUR for a free trade agreement. Many are the variables that must be taken into consideration before a satisfactory agreement can be reached. Nevertheless, the author believes that the decision to begin bilateral negotiations regardless of the progress that may or may not be achieved in multilateral negotiating fora - such as the World Trade Organization (WTO)- on issues of vital interest to both parties, particularly trade in agricultural goods, is in itself a "major achievement". This reveals both parties' firm commitment to reach an agreement.

Las perspectivas de un acuerdo de libre comercio UE-MERCOSUR
De acuerdo a la autora de este artículo, para este año no se deben esperar grandes avances en las negociaciones que adelantan la Unión Europea y el MERCOSUR para suscribir un acuerdo de libre comercio. Son muchos los factores –y en esto se centra su análisis- que deben ser tomados en cuenta antes de llegar a un entendimiento satisfactorio. Sin embargo, la especialista califica como un "gran logro" la decisión de iniciar las negociaciones bilaterales independientemente de los avances que se den en instancias multilaterales de negociación, como la Organización Mundial del Comercio (OMC), en materias de vital interés para ambos grupos, principalmente el comercio agrícola, ya que ello demuestra el firme compromiso de ambas partes de concluir el acuerdo.

Les perspectives d'un accord de libre-échange UE-MERCOSUR
Il ne faut pas s'attendre cette année, selon l'auteur de cet article, à une évolution significative des négociations entre l'Union européenne et le MERCOSUR qui permettrait d'aboutir à la signature d'un accord de libre-échange. De nombreux facteurs doivent êtres pris en compte – et c'est là l'objet de son analyse– avant d'en arriver à une entente satisfaisante. Cette spécialiste qualifie toutefois de «grand succès» la décision d'entamer des négociations bilatérales indépendamment des progrès réalisés dans le cadre d'instances multilatérales de négociation telles que l'Organisation mondiale du commerce (OMC) sur des questions d'intérêt vital pour les deux groupes, essentiellement en matière d'échanges de produits agricoles : cette décision témoigne en effet de la ferme volonté des deux parties de parvenir à un accord.

As Perspectivas de um Acordo de Livre Comercio UE-MERCOSUL
De acordo à autora deste artigo, neste ano não devemos esperar grandes progressos nas negociações existentes entre a União Européia e MERCOSUL no referente à subscrição de um acordo de livre comércio. São muitos os fatores –e nisso se centraliza sua análise– que devem ser levados em conta antes de qualquer entendimento satisfatório. Entretanto, a especialista considera um "grande sucesso" a decisão de iniciar as negociações bilaterais independentemente dos progressos que possam ser alcançados em instâncias multilaterais de negociação, como a Organização Mundial de Comércio (OMC), em matérias de vital interesse para ambos os grupos, principalmente o comércio agrícola, visto que isso demonstra o firme compromisso das duas partes no sentido de concluir o acordo.

Prospects of a New EU-MERCOSUR Free Trade Agreement

➻ **Susanne Gratius**
Researcher at the Iberoamerika-Kunde Institute in Hamburg, Germany

Introduction

The idea of negotiating free trade agreements between the EU and the more economically advanced Latin American countries stemmed from the signing, by the European Union (EU) and MERCOSUR, in December 1995, of an inter-regional cooperation agreement designed to prepare a future political and economic association. A year later, the EU made the same offer to Chile and in 1998 began negotiating with Mexico a trade agreement, based on an interim global agreement signed on December 8, 1997.

Even though MERCOSUR is the European Union's main trade partner in Latin America and was the first to agree on a future association, negotiations with Mexico concluded first, within a period of only two years. Mexico was the first Latin American country to sign, on March 23, 2000, a Free Trade Agreement (FTA) with the EU. The accord will enter into effect on July 1, 2000. The swiftness of this process is due to two factors:

- Both parties' interest in signing an agreement: Mexico to counterbalance the USA and the EU to access the NAFTA.
- The structure of their trade, of which agricultural products represent only 6% of total trade flows.

The EU-Mexico agreement covers 95% of trade – the World Trade Organization (WTO) only allows for the exclusion of 10%. The few exceptions are agricultural products (beef, milk products, and cereals). The time limit for trade liberalization is seven years, to the year 2007. A joint commission and a dispute settlement mechanism will provide the institutional follow up of the commitments entered upon. Both the EU and Mexico hope with this agreement to stimulate trade and investment flows, which have decreased considerably since Mexico's accesion to the NAFTA. During the coming years, the trade liberalization process will put a stop to the erosion of the European Union's position in the Mexican market and, vice-versa, will consolidate Mexico's participation in EU imports from Latin America.

It is highly probable that Chile will be the next Latin American country to sign a FTA with the EU. According to Chile's former President Eduardo Frei, negotiations with the EU could end within two years (El Mercurio, 2-17-2000). On June 28, parallel to the first Summit of Heads of State and Government of Latin America and the Caribbean and the EU, held in Rio de Janeiro, Chile and the EU signed a joint declaration in which they agreed to begin negotiations in November. On November 24, 1999 a first meeting took place in Brussels to approve the agenda, structure and methodology of the negotiations which were launched in April of this year in Santiago, Chile.

As in the case of Mexico, agricultural products are not the key sector in Chile-EU trade, even though they represent close to 20% of Chile's exports to the EU and are, thus, very important. According to WTO regulations, around 7% of agricultural goods are considered sensitive and could be temporarily excluded from an agreement. If Mexico is the bridge to North America, Chile - in spite of the decrease in trade flows resulting from the financial crisis – is still the most important Latin American door to Asia. Also, Chile is an associate member of MERCOSUR and could in the near future become a full member of that trade bloc. This explains why the negotiating process between Chile and the EU is taking place parallel to and is closely linked to the EU-MERCOSUR dialogue.

I. The Difficulties of the Process

In inter-regional association agreement between the EU and MERCOSUR faces three additional difficulties that complicate the negotiating process. First, half of MERCOSUR exports to the EU are agricultural and fisheries products, representing the main obstacle to a free trade agreement. Faced with future competition from South American producers, the powerful agricultural lobby in countries such as Germany, France and Spain object to opening to that sector. Besides this major obstacle, a second problem is the very structure of the inter-regional type of the negotiations, following the "15 plus 2" table, on which consensus is more difficult to reach. Thirdly, these are negotiations between two customs areas, incomplete in the case of MERCOSUR as it is a project still being built.

As it did with Chile, in Rio the EU signed with MERCOSUR a joint declaration. Negotiations on a free trade agreement began the same day, on November 24, 1999 and continued until April 2000 in Buenos Aires. In spite of the obstacles, an inter-regional EU-MERCOSUR free trade agreement would be highly beneficial to both parties. Relations between both partners have been traditionally the closest within the framework of EU-Latin American cooperation. According to estimates by the European Commission –which defends its own interests above all– a free trade agreement would benefit Europe more than MERCOSUR:

- A free trade agreement could increase MERCOSUR´s exports to the European market by 1,4% per year.
- EU sales to MERCOSUR would grow between 2,4% and 3,4% per year.

1. An Intense but Uneven Inter Regional Trade

" *An European Union-MERCOSUR free trade agreement would be the first in the world between two customs unions.* "

An European Union-MERCOSUR free trade agreement would be the first in the world between two customs unions. Nevertheless, it should be remembered that MERCOSUR will not be a full customs union until the year 2006, when the transitional deadlines for the 15% of excluded products will be met. MERCOSUR is the European Union's main trade partner in Latin America: in 1998 it accounted for more than half of bi-regional trade flows and of Europe's Foreign Direct Investment (FDI) in the region. Nevertheless, MERCOSUR is not a very important trade partner for the EU since it represents only 2,9% of trade from outside the EU.

On the other hand, the EU is responsible for more than a quarter of MERCOSUR's exports and imports and is, thereby, its main trading partner and also its main investor. Trade between both partners is highly favorable. Since 1990, trade between the EU and MERCOSUR has tripled. In 1998, it grew by 4 % in relation to the previous year. If Brazil is the major trading partner for the EU within MERCOSUR, Germany, Italy and France are, in this order, the major European markets for MERCOSUR.

The balance of trade with the EU is increasingly negative for MERCOSUR. In 1998 it registered a negative result of US$ 6,600 million, equal to 42 % of MERCOSUR's global trade deficit. For the 1990-1998 period, European sales to MERCOSUR showed an 18 % annual average growth, in contrast to a 1,8 % increase in purchases. The fact is that during the 1990´s MERCOSUR was the most dynamic emerging market for the EU. Sales of automobiles, services, capital goods and consumer items registered a 350 % cumulative growth during the decade (IRELA, 2000). Such growth is, to a great extent, the result of unilateral trade liberalization by MERCOSUR. Given the persistent EU trade barriers to MERCOSUR's agricultural and fish exports, such trade liberalization has benefited European producers. This explains why market access for agricultural products is a basic requirement for MERCOSUR's member countries and the major obstacle to a free trade agreement.

Notwithstanding such divergent interests at the sectoral level, on the whole, these have also been the most prepared for negotiations on both sides. Both hope to derive large benefits from a future free trade agreement. Thus, a successful conclusion of an EU-MERCOSUR economic and political interregional association would set the stage for permanent European influence on the American continent's southern countries, thereby possibly contributing to their separation from the predominantly US influenced northern area. A free trade agreement with the EU –which is an alternative to MERCOSUR participation in a possible FTAA– will, in a certain way, also determine the future of MERCOSUR's external relations.

1.1. The Rio de Janeiro Commitment.

Ever since the EU and MERCOSUR signed a Framework Cooperation Agreement on December 1995 it is expected that an interregional association agreement, including the establishment of a common free trade area, will crown both parties' privileged relationship. During the last five years progress has been made in this regard, although at a lower pace than expected. After difficult internal debates, a week before the first EU- Latin America Summit held in Rio de Janeiro at the end of June 1999, the EU Council decided to start separate and parallel FTA negotiations with Chile and MERCOSUR.

In accordance with the Rio Declaration, negotiations started in November 1999. However, the complex process of tariff negotiations was postponed until after July 1, 2001 and the date for the conclusion of the dialogue left open. The future EU-MERCOSUR interregional association agreement will be a comprehensive commitment with no sectors excluded. To date, two meetings have been held:

- On November 24,1999, the EU-MERCOSUR Cooperation Council established, in Brussels, the methodology, structure and agenda of the negotiations. A Bi-regional Negotiating Committee, responsible for trade issues and the coordination of the process (it will meet three times a year), a Cooperation Sub-Committee and Technical Group and Coordinating Secretariats in the EU and MERCOSUR were established.
- At the beginning of April 2000, the first meeting of the Bi-Regional Negotiating Committee met for the first time in Buenos Aires and launched the trade negotiations. Three Technical Groups were created for: 1. Trade in goods (with

three sub-groups)[2], trade in services, capital movements, investment and intellectual property, 3. competence and the regulation of disputes.

In June, the Committee will meet in Brussels, to begin negotiations on the gradual dismantling of technical barriers to trade, before negotiations begin in July 2001 on the gradual reduction of tariff barriers, including the troublesome agricultural sector and the liberalization of trade in services.

1.2. The Trade Structure

As in the case of trade between Europe and Latin America in general, the structure of EU-MERCOSUR trade is highly uneven. In 1998 MERCOSUR's sales to the EU were mostly in the following low value added products: foodstuffs (35%), raw materials (27%) and manufactured goods (14%). Industrial goods represented only 12% of total exports (Eurostat, 1999). The EU, on the other hand, exports to MERCOSUR mostly industrial products (56%), chemical substances (16%) and manufactured goods (12%).

Even though the EU has an average Common External Tariff (CET) of 9,4% and MERCOSUR of 12,5% –it varies between 0% and 23%– both partners protect key sectors in the bi-regional trade with high tariff barriers. While EU tariffs on some agricultural goods reach up to 85%, with the added requirement of import quotas, MERCOSUR countries' individual tariffs on the automotive sector top 45% (Brazil). On the other hand, it should be pointed out that, currently, 67% of MERCOSUR's exports to the EU are tariff free or subject to very low tariffs. Unrestricted access for the remaining third of all sales will be negotiated in the near future. Both parties have something to lose: for MERCOSUR's opening the automotive, capital goods and service sectors implies the risk of massive competition from European firms, while for the EU the liberalization of the agricultural and fisheries sector could cause negative effects.

Trade in the agricultural and fisheries sectors. Since more than 40% of MERCOSUR sales to the EU are in this sector, it will be the most conflictive sector in the negotiations and the last to be liberalized. The projected tariff free entry into the European market of highly competitive products from MERCOSUR caused serious reticence on the part of the powerful agricultural lobby in France, Germany, Spain and Italy. In order to progress in the negotiations on the liberalization of this sector, the European Union's Common Agricultural Policy (CAP) must be reformed, including opening up to foreign competition. With a 47% share of the Union's budget, the CAP represents the 'essence' of European integration, even though it employs only 6% of the EU labor force. Approximately 14% of MERCOSUR's exports are considered 'sensitive', among them meet, cereals, sugar, fruits, wine and milk products. Since up to 10% of total trade can be temporarily excluded form a free trade agreement, both parties will need to negotiate the inclusion of at least 4% of sensitive products. EU calculations on the possible costs of a FTA with MERCOSUR vary according to interest groups between an additional sum of 5,700 and 14,300 million euros per year, to compensate European farmers for MERCOSUR's competition.

The automotive sector. In spite of high tariff barriers, this is the most dynamic sector in EU-MERCOSUR trade, representing 30% of all trade flows. Close to 40% of all MERCOSUR automobile imports are from Europe and 17% of EU exports to the bloc are in this sector. The recent definition by Argentina and Brazil of a common automotive regime –MERCOSUR's CAP– will ease negotiations with the EU in this key sector. In the March 23 agreement, Argentina and Brazil agreed to liberalize the sector by the year 2006 and established internal dead lines to this effect. They also established a 35% CET, the highest the WTO allows. This initiative will be fundamental to progress in the negotiations with the EU, the largest automobile and auto parts exporter to MERCOSUR. On the other hand, since its production costs are lower than those of the USA and the EU, MERCOSUR is beginning to position itself as a major exporter of automobiles. Countless transnational enterprises in this field have transferred their production centers to Brazil and Argentina.

Capital goods. More than half of Europe's exports to MERCOSUR are machinery and industrial goods. In the case of Argentina and Brazil, this sector is excluded from MERCOSUR's custom union until the year 2001 and in the case of the two smaller partners until the year 2006. On those dates, a 14% CET will be levied and a CET will be defined for information technologies until the year 2006. Brazil is becoming an important exporter of capital goods and information products, which represent 11% of MERCOSUR's global sales. Therefore, MERCOSUR has a greater interest in protecting its national industries from EU competition.

Trade in services. MERCOSUR has not developed yet a common policy regarding trade in services. At the end of 1997 its member countries signed a Protocol on Trade in Services which envisions the liberalization of this sector within a period of ten years. A second meeting on this issue will be held sometime this year. Since this is one of the most dynamic sectors in EU exports to MERCOSUR –particulalry as regards telecommunications and financial services– the EU has a vested interest in MERCOSUR's progress towards a common policy and greater liberalization of this sector. Brazil represents 30% of the Latin American telecommunications market.

Government procurement. MERCOSUR's countries have not defined as yet a common policy on this issue. The first steps towards a future agreement in this sector of particular interest to the EU will be taken throughout this year. Thus, neither services nor government procurement will be included in the first round of negotiations between the EU and MERCOSUR.

From MERCOSUR's perspective, the liberalization of the agricultural and fisheries sector –and of textiles– would generate the greater trade benefits of a future FTA with the EU, reducing the southern bloc's growing trade deficit. For the EU, a FTA with MERCOSUR would be highly beneficial, particularly in its exports' most dynamic sectors, such as automobiles, industrial products, consumer goods and services, which are subject to high tariffs by MERCOSUR. Nevertheless, it is precisely in these most promising sectors in EU-MERCOSUR trade relations that liberalization has not occurred. If the EU refuses to reform the CAP, automobiles, capital goods and services are precisely the products that will be excluded from MERCOSUR's customs union.

A FTA would greatly increase trade flows between both partners. According to estimates by the European Commission the liberalization of trade with MERCOSUR would generate an additional annual income of $6,500 million –equal to MERCOSUR' current trade deficit– for the EU and of at least $5,100 million per year for MERCOSUR. Given this prospect, enterprises from both blocs have been pushing for the creation, in the short term, of a free trade area. The EU-MERCOSUR Business Forum has been held since 1999 to strengthen economic links between both blocs.

“*According to estimates by the European Commission the liberalization of trade with MERCOSUR would generate an additional annual income of $6,500 millioin for the EU and of at least $5,100 million per year for MERCOSUR.*”

II. Prospects for MERCOSUR-EU Association

According to European Commission officials, trade flows between the EU and MERCOSUR will not be liberalized, probably, until the year 2015. At the moment, projections are that negotiations will require between three and four years, that is, an inter-regional association agreement would be signed between the years 2003 and 2005. Thus, a more realistic scenario would place the trade liberalization of the majority of goods not before the year 2010. A free trade agreement between the EU and MERCOSUR will depend on a number of internal and external factors:

- The evolution of the integration process within MERCOSUR and the EU,
- the development of the FTAA and MERCOSUR's (Brazil's) position in the negotiations,
- the scope and timetable of the reform of the European Union's CAP,
- the possible convening of a round of multilateral negotiations within the WTO.

1. The Future of Integration within the EU and MERCOSUR

Both the EU and MERCOSUR face the dilemma of simultaneously expanding and deepening their integration processes. The adoption January last, by 11 countries, of the euro, the progress made in the negotiations with the countries soon to enter the union and the difficult internal reform process have defined the recent evolution of the EU. The introduction of the euro was the most significant step to build a true economic and monetary union and to counterbalance the United States' privileged position in the international financial system.

At the same time, the expansion of the EU is underway. The first group of countries that will enter the union in the coming years are Cyprus, Estonia, Hungary, Poland, the Check Republic and Slovenia. At the same time, this year negotiations will begin the remaining five countries (Bulgaria, Slovakia, Letonia, Lithuania and Rumania), the second 'wave' that will enter the union. The expansion of the EU to include six or eleven more members requires the reform of its institutions and decision-making mechanism. This process will be defined by an inter-governmental conference. Similarly, the annexation of the new eleven candidates requires a restructuring of the highly subsidized agricultural policy. The expansion of the EU to include these countries will benefit MERCOSUR in that it will speed the process of reform of the CAP and affect it in that the Southern bloc will have to compete with the agricultural products of countries geographically closer to the EU.

MERCOSUR also faces the dilemma of simultaneous expansion and strengthening. For MERCOSUR the year 1999 –the most difficult one in its history– ended with a lesson: the best recipe for MERCOSUR is not less but more. In 1999 the southern bloc experienced the worst crisis since its creation in 1991. The Gross Domestic Product (GDP) fell by –0.8% and intra-regional trade decreased by a fourth compared to the previous year. Nevertheless, within a short period of time MERCOSUR conquered its first trial by fire and emerged from the ashes of the crisis with renewed impetus, in spite of persistent tensions in some sectors.

Argentina, with a dollar-peso parity system, was the country most affected by the financial crisis in Brazil, which received almost one third of its total exports. As a result of the devaluation of the Brazilian real, Argentina's exports to its neighbor fell by 25% (IRELA, 1999), while its imports from Brazil increased. Consequently, throughout 1999 Argentina adopted a number of measures aimed at restricting imports from Brazil in the textile and footwear sector. This resulted in a series of disputes with Brazil. Nevertheless, between the years 1999 and 2000 Argentina and Brazil agreed on the simultaneous expansion and strengthening of MERCOSUR.

- **Strengthening**: First, agreement was reached on the need for greater macroeconomic harmonization –following the example of the EU's Maastricht criteria– and on the future possibility of adopting a common currency (dollar of peso). In June 1999, an ad-hoc working group was created on this issue. In April 1999 Argentina and Brazil agreed to define, by March 2001, criteria for macroeconomic harmonization. Secondly, after many years of negotiations, Argentina and Brazil defined a common automotive regime.
- **Expansion**: In July 1999 Brazil signed a unilateral preferential agreement with the Andean Community and is lobbying for convergence with MERCOSUR. In this regard, Brazil will convene to a South American summit, to be held on August 31 in Brasilia. The summit has two objectives: strengthen South America's position in the FTAA negotiations and work towards the creation of a South America Free Trade Agreement (SAFTA) between MERCOSUR, the Andean Community and Chile. This process will have repercussions on the EU as well, since a future free trade agreement with MERCOSUR could include many more countries than today.

2. MERCOSUR and the FTAA

Even though for MERCOSUR the free trade negotiations within the hemisphere and with the EU are not mutually excluding, but rather complementary processes, its participation in a future

FTAA would naturally cause a rerouting of EU trade towards the rest of the American continent. Similarly, the successful conclusion of the FTAA, in which the USA is a major player, would reduce MERCOSUR's current leading role in Latin America and could even, in the medium term, threaten the bloc itself. On the other hand, from MERCOSUR's perspective the negotiations with the EU are also a means of strengthening its position within the framework of the FTAA and vis-à-vis the USA (Bulmer-Thomas, 2000).

In economic terms, MERCOSUR would stand to benefit more from the European option. According to 1997 estimates by the Getulio Vargas Foundation, trade liberalization between the EU and MERCOSUR would result in an additional 5% economic growth per year for Brazil, compared with 2% with the FTAA. In the case of Argentina the difference between the two options is higher: 6% and 1%. These estimates are based on the assumption that once tariff barriers have been eliminated in the EU, the European market will offer MERCOSUR's agricultural exports a greater potential for expansion. According to experts MERCOSUR's participation in the FTAA would benefit US exports more since tariff barriers within the bloc are still relatively high. All in all, MERCOSUR's participation in the FTAA would certainly lead to a sharp deviation of trade with the EU. On the other hand, a FTA with the EU would cement the continent's North-South division (Lerman Alperstein 1999).

“The European Commission acknowledges that the liberalization of Europe's agricultural sector is the great unknown in the negotiations and the key to define a free trade agreement with MERCOSUR.”

3. The Unknown

The European Commission acknowledges that the liberalization of Europe's agricultural sector is the great unknown in the negotiations and the key to define a free trade agreement with MERCOSUR (Gratius, 1999). The WTO's Millenium Round following the Seattle failure, which would speed the reform of the CAP, is another major unknown.

Even though some gradual progress has been made towards a greater liberalization of Europe's agricultural sector – the most protected in the world- these changes do not represent visible advantages for Latin American producers. Since the CAP is still the EU's central axis, its elimination would require a far reaching political decision which would generate massive protests from European agricultural lobbies, particularly in Germany and France, which are the largest beneficiaries of the subsidies policy. In March of 1999 the Commissioner in charge of the CAP, Franz Fischler, summarized the EU position thus: “The multifunctional dimension of the EU's CAP will not be subject to negotiations and we have no intentions of sacrificing it for free trade" (IRELA, 1999[a]).

Given the difficulty of mustering internal consensus to remove agricultural barriers, it appears that real progress in this sector will come as a result of external pressures. Therefore, the EU's willingness to make strides towards a more open CAP depends, to a great extent, on the evolution of the negotiations within the WTO. The USA and other industrialized countries have more leverage in this forum than Latin America or MERCOSUR to petition the EU to significantly reform this sector of major importance in the multilateral trade negotiations. These negotiations will continue this year in the agricultural and service sector even without the 'millenium round'. According to the WTO agenda, three meetings of the Agricultural Committee and four of the Trade and Services Council will be held in the year 2000. The next governmental level meeting is scheduled for March 2001.

In any case, the agenda for the EU-MERCOSUR negotiations will most likely leave the agricultural issue for the end of the process, between the years 2003 and 2005. Since by that date six new countries –five of them with a strong agricultural sector– will enter the Union, the EU will have had to begin reforming the CAP. Not much progress will be made towards the FTA during this year in the EU-MERCOSUR negotiations. This will possibly change in the year 2001, when MERCOSUR will have progressed towards a customs union –meeting the deadlines for a common policy for capital goods and informatics– and recovered completely from the 1999 crisis. On its side, by that date the EU could have defined its major internal reform and the issue of the WTO 'post-millenium' round could be resolved.

"*The decision to begin negotiations regardless of progress at the multilateral level greatly spurred the EU-MERCOSUR process.*"

The decision to begin negotiations regardless of progress at the multilateral level greatly spurred the EU-MERCOSUR process. With that decision, both parties agreed to work towards the conclusion of a FTA, in spite of the sectoral risks this could entail for both. Within this context, it is highly probable that a FTA agreement will be signed during the next five years and both customs unions will achieve full trade liberalization not later than the year 2015. In this respect, the initiation of the EU-MERCOSUR negotiations was also a partial victory for 'globalizators' who strive for reciprocal market liberalization, over 'protectionists' who defend past privileges.

Bibliography

BODEMER, Klaus (1999): "Von Rio nach Seattle – Ist der Traum von *einer europäisch-lateinamerikanischen strategischen Partnerschaft bereits ausgeträumt?", in: Lateinamerika: Analysen, Daten, Dokumentation, n° 41, Hamburg, p. 35-53.*

BULMER-THOMAS, Victor (2000): "The European Union and MERCOSUR: Prospects for a Free Trade Agreement", in: Journal of Interamerican Studies and World Affairs, Vol. 42, N° 1 (Spring), p. 1-22.

CEPAL (2000): **Balance preliminar de las economías de América Latina y el Caribe,** *1999. Santiago de Chile.*

——, *(1999):* **América Latina en la agenda de transformaciones estructurales de la UE**. *Santiago de Chile.*

COMITÉ ECONÓMICO Y SOCIAL (1998), La situación socioeconómica en Chile y sus relaciones con el Mercosur y la UE. Brussels, September, 10, 1998.

GRATIUS, Susanne (1999): "Una tregua. La controversia agraria en las relaciones UE-Mercosur", in: Desarrollo y Cooperación (D+C), Nr. 5, Bonn, p. 18-20.

HOLTZ, Eva (1999): "El efecto samba en el MERCOSUR", en: Capítulos del SELA, Latin America in the International Crisis, Nº 56 (May-August), Caracas, p. 117-133.

IRELA (2000): **La Unión Europea y el Grupo de Río: la agenda birregional**. *(Documento de Base preparado para la IX Reunión Ministerial UE-Grupo de Río). Madrid.*

——, *(1999a):* **Relaciones económicas entre el MERCOSUR y la UE: Perspectivas para la nueva década.** *IRELA, Special Report (22 de noviembre), Madrid.*

——, *(1999b)* **MERCOSUR-Unión Europea: dinámicas y prospectivas de una asociación creciente**. *IRELA Report, Madrid.*

——, *(1999c):* **Chile y la Unión Europea: perspectivas de asociación**. *IRELA Report, Madrid.*

——, *(1998d):* **Preparando la asociación UE-MERCOSUR: beneficios y obstáculos.** *IRELA Report, Madrid.*

LERMAN ALPERSTEIN, Aída (1999): "Mercosur, Estados Unidos y el ALCA", in: Comercio Exterior, vol. 49, n°11 (November), México D.F., p. 970-976.

ROETT, Riordan – Ed. (1999): **MERCOSUR: Regional Integration, World Markets.** *Lynne Rienner, Boulder/London.*

The Declaration of Vilamoura

1. The IXth Institutionalised Ministerial Meeting between the European Union and the Rio Group was held in Vilamoura, Portugal, on 24 February 2000, as provided for in the Rome Declaration of 20 December 1990 and the Final Declaration of the VIIIth Ministerial Meeting held in Panama in February 1998.

2. The EU delegation was led by Mr Jaime Gama, Minister for Foreign Affairs of Portugal and President-in-Office of the Council of the European Union, accompanied by Mr Javier Solana Madariaga, Secretary-General of the Council of the European Union and High Representative for the Common Foreign and Security Policy. The Commission was represented by Mr Chris Patten, Member.

The Rio Group delegation was led by Mr Guillermo Fernández de Soto, Minister for External Relations of Colombia and Pro Tempore Secretary of the Rio Group.

3. The Ministers underlined the importance of the first Summit of the Heads of State and of Government of the European Union and Latin American and Caribbean countries, held in Rio de Janeiro on 28 and 29 June 1999. They pointed out that that Summit had initiated a new stage in relations between the two regions, which were called upon to sign up to a strategic partnership in the political, economic, social, environmental, educational, cultural, human relations, technical and scientific spheres.

In this context they reaffirmed their attachment to the principles of the Rio Declaration and their commitment to continuing to work jointly to follow up effectively the priorities for action laid down by the Heads of State and of Government, welcoming in particular the work of the Bi-regional Follow-up Group. Here they referred to the first meeting of that group which had taken place in Tuusula, Finland, at which eleven priority working areas had been identified, and to the holding of its second meeting on 25 February in Vilamoura.

4. The Ministers underlined the importance they attached to political dialogue and cooperation between the European Union

and the Rio Group and reaffirmed their political will to continue to strengthen relations between the two regions. For that reason, they welcomed the recent accession of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic to the Rio Group, which enriches and reinforces the representative nature of this permanent mechanism for political consultation and concertation.

5. They emphasised that respect for human rights, the rule of law and democratic institutions were indispensable for political stability and development in both regions and are mutually reinforcing. They confirmed their Governments' commitment to representative democracy, political pluralism and full participation by civil society in the process of political decision-making.

In particular, Ministers recognised that, in application of these values and the rejection of all forms of intolerance, it was of paramount importance to educate citizens in democratic principles and to encourage a culture based on these same principles, which were at the root of political systems and relations between the parties and also represented an essential factor in ensuring sustainable development.

6. The Ministers highlighted the essential role of the international and regional systems for promoting and protecting human rights and fundamental freedoms and the importance of cooperation by all countries in this framework. They also stressed the need to give particular importance to promoting equality between men and women and promoting and protecting the rights of the most vulnerable groups in society, in particular children, young people, the disabled, displaced persons, migrant workers and their families and indigenous populations and minorities.

The Ministers reaffirmed their commitment to promoting policies aimed at eliminating poverty, marginalisation and social exclusion, and reducing socio-economic inequality. Similarly, they stressed that it was important, particularly in view of globalisation, that the developed countries and other relevant actors in the international system should show their solidarity.

The Ministers emphasised respect for the principles and provisions of international humanitarian law and recommended early adoption of the optional protocol to the Convention on the Rights of the Child on the recruitment of minors to fight in armed conflicts, with the aim of safeguarding children's welfare, rights and personal development. They therefore launched an appeal to all parties engaged in armed conflicts of any kind to refrain from involving the civilian population, and children in particular.

7. The Ministers rejected any extra-territorial application of national laws that infringe international law, and reaffirmed their desire to continue to work jointly to gradually develop national and international provisions concerning the criminal responsibility of persons who have committed crimes against humanity.

Likewise, Ministers reiterated their categorical rejection of all unilateral trade measures with extra-territorial effect as being contrary to international law and the rules of the WTO. They agreed that practices of this type posed a grave threat to multilateralism.

8. The Ministers welcomed the progress recently achieved in the process of rapprochement between the two parties, namely completion of negotiations with Mexico for the setting up of a free trade area and launching of the negotiation process for association agreements with MERCOSUR and Chile.

In this connection, Ministers reiterated the political commitment to strengthen the processes of bi-regional and bilateral rapprochement and encourage progress in implementing the instruments and mechanisms provided for in the existing agreements.

The Ministers noted with satisfaction the request to the European Commission and the General Secretariat of the Andean Community to draw up a study which will provide a diagnosis of the current situation and the prospects for economic and commercial relations between the two regions, in the framework of the Andean initiative, with a view to analysing the possibility of negotiating an association agreement.

The Ministers applauded the holding of the second European Union-Central America Trade Forum in the context of the San José Dialogue. They acknowledged the importance of laying the foundations for establishing a new model of future economic relations, that will give rise to mutual commercial benefits.

Ministers also underlined the completion of negotiations between the European Union and the ACP States for an agreement to replace the Fourth Lomé Convention.

9.The Ministers underlined the convergence of views achieved by both parties on a significant number of subjects of general interest and agreed to step up cooperation on all subjects of common interest within international fora.

In this context, they emphasised the particular importance of reinforcing the dialogue set up within the United Nations, including the debate on the progress of the reform of the United Nations system, the search for a new equilibrium between its main bodies, with the aim of improving its efficiency, and agreed to meet in New York on the occasion of the 55th United Nations General Assembly.

10. The Ministers welcomed and emphasised the historic significance of the return of the Panama Canal to Panamanian hands and stressed the importance of ensuring the smooth functioning of that inter-oceanic thoroughfare for the benefit of world trade.

11. The Ministers recognised the importance of maintaining high-level political dialogue and active coordination with regard to combating the world drugs problem, organised crime and terrorism.

12. The Ministers stressed the importance of the principles of joint and shared responsibility in combating the international problem of illicit drugs and drug-related crime, such as money laundering, trafficking in and diversion of chemical precursors, contraband and trafficking in arms. They also underlined the need to define in a coordinated way an integrated and balanced approach taking into account sustainable development and aimed at reducing supply and trafficking on the one hand and demand for drugs on the other, by means of international cooperation, in accordance with the principles of the United Nations Charter and international law.

In this context, Ministers reiterated their commitment to work jointly to implement the Comprehensive Action Plan on Drugs between the European Union, Latin America and the Caribbean, adopted in Panama in April 1999. Ministers welcomed the accelerated implementation of this plan which seeks in particular better and faster results in areas such as the control of chemical precursors, judicial, police and customs cooperation, prevention, institutional strengthening and alternative development as the central axis of interregional cooperation and the development of the cooperation and coordination mechanism agreed at the Rio Summit. They expressed their conviction that the high-level meeting in Lisbon on 22 and 23 May would make it possible to advance this cooperation and define priorities and practical measures.

13. The Ministers agreed in assigning the highest priority to combating the movement of and trafficking in small-calibre weapons and to measures designed to control the accumulation

and proliferation of these weapons and the collection and destruction of stocks in civilian hands.

The Ministers welcomed the entry into force, on 1st March 1999 of the Ottawa Convention on the prohibition of the use, stockpiling, production and transfer of anti-personnel mines and on their destruction and emphasised the importance of the full and speedy implementation of the Convention. They called on all states to join efforts to achieve the total elimination of Anti-personnel Landmines worldwide and agree to attach high priority to efforts dealing with the suffering and destruction caused by their use.

14. The Ministers reaffirmed their commitment to cooperate very closely to reduce vulnerability in the region, to prevent natural disasters of the type which recently caused so much suffering and damage in Venezuela, Central America and the Caribbean and also to react to and lessen the effects of such disasters. The aim would be to make full use of international cooperation at all stages, ranging from prevention to possible humanitarian support and, if need be, help with rehabilitation and reconstruction, with due regard for the environment and in accordance with the principles of Agenda 21 and international law, so as to reduce the region's vulnerability. To that end, they suggest, where appropriate, implementing projects to promote conservation and the sustainable use of natural resources.

The Ministers highlighted the concept of disaster prevention from the development viewpoint and took note of the recommendations made by the first meeting of the ad hoc working party on natural disasters set up by the Rio Group, held in September 1999. In the light of these recommendations, they reaffirmed their willingness to cooperate in this area and agreed that the results obtained by this working party would provide a basis for the joint discussions which the Rio Group and the European Union were to begin shortly.

15. The Ministers agreed to cooperate and exchange views on sustainable development, including the question of world conservation of forests and the rational use of forest resources.

16. The Ministers also expressed their political will to achieve early application of the Kyoto Protocol. In this context they welcomed the Sixth Conference of Parties to the UN Framework Convention on Climate Change, which will meet in the Netherlands in November 2000.

17. The Ministers stressed the importance of the World Trade Organisation (WTO) as the main forum for encouraging gradual and mutually advantageous trade liberalisation and establishing basic rules and principles for the international trading system.

The Ministers stressed the importance of keeping up momentum in favour of launching a new comprehensive round based on a balanced agenda taking adequate account of the interests of all the members of the Multilateral Trading System. This round must be directed at strengthening access to markets without excluding any sector, in order to develop and strengthen the rules and disciplines of the WTO. The Ministers emphasised that, to launch successful negotiations, careful preparation was necessary, including the adoption, as a matter of urgency, of a number of measures aimed at promoting better integration of developing countries into the Multilateral Trading System and, in turn, improving the operation of the WTO. In this context, the Ministers stressed the need to make progress in the WTO's cooperation schemes designed to strengthen the technical and institutional capacity of the developing countries and, particularly of the least developed countries. They also noted the importance of the agreement by all the Members on the initiation of constructive negotiations under the built-in agenda, including agriculture and services.

18. The Ministers stressed the importance of new civil society, players, partners and resources in consolidating economic and social development and encouraged civil society interchange and cooperation between Latin America, the Caribbean and the European Union.

19. The Ministers urged that fresh efforts be undertaken on regional integration in Latin America and the Caribbean because it represents a significant factor both for the region's economic and social development and for the assertion of Latin America and the Caribbean on the international scene. In order to contribute towards this objective, they confirmed that they intended to set up a programme of postgraduate studies and a network for research on regional integration.

20. The Ministers confirmed the need for a stable and dynamic international economic and financial system, restating their intention of developing bi-regional cooperation to bolster national systems and putting into place prevention and early-warning mechanisms to cope with international financial crises, or of arranging, in the event of such crises, for measures capable

of providing swift, effective solutions. To this end, Ministers emphasised the need to strengthen the international financial system.

The Ministers pleaded for a fair and lasting solution to the external debt problem. Here, they expressed their support for those countries having pursued adjustment and structural reform policies. More particularly, they expressed the wish that highly indebted poor countries be able to benefit more quickly from the measures agreed on their behalf and that bilateral negotiations on debt relief for them be speeded up.

21. The Ministers saw a need to promote in appropriate fora a bi-regional dialogue on questions relating to the design of a new international financial architecture, so that the two regions might be able to take full advantage of the integration of capital markets, thereby reducing the risks and destabilising effects associated with their volatile nature.

22. The Ministers acknowledged that the introduction of the euro was helping to tighten economic and financial links between the two regions, to consolidate the international financial and monetary system, and to promote its stability and dynamism.

23. The Ministers reiterated their conviction that investment promotion was a core objective in the relations between the two regions. They encouraged the development of initiatives to promote the growth of investment flows between the parties, in particular through the creation of joint ventures and the conclusion of bilateral agreements for the promotion and reciprocal protection of investment. Ministers agreed to analyse the potential benefits of concluding agreements designed to avoid double taxation.

24. The Ministers welcomed the announcement of the Ist EU-LAC Forum of undertakings to be held in Madrid in November 2000.

25. The Ministers restated the need to continue promoting the development of small and medium-sized undertakings as a factor of growth and employment generation capable of dovetailing the knowledge-based society with specific local cultural features, whilst taking account of the special situation of certain regions and priority sectors.

26. The Ministers drew up a positive balance sheet in respect of cooperation between the parties, emphasising their wish to step up that cooperation in the areas listed in the priority actions defined at the Rio de Janeiro Summit.

27. The Ministers highlighted the advances made on integration in the field of energy in both Latin America and the Caribbean; they undertook to redouble efforts to intensify cooperation on energy, including the use of alternative sources of energy, between the European Union and the Rio Group countries with a view to encouraging free trade and inter-regional investment, in accordance with the legal framework obtaining in each country.

28. The Ministers agreed that activities linked to the enhancement of cultural heritage are a major aspect of cooperation between the European Union, Latin America and the Caribbean. In addition to the preservation of cultural heritage, that aspect covers tourism, support for the development of that sector, including audiovisual matters and trade in cultural goods, as well as promotion of co-productions between the European Union, Latin America and the Caribbean.

29. The Ministers agreed to hold the Xth ministerial meeting between the European Union and the Rio Group in Chile in 2001.

30. The Ministers expressed their gratitude to the government and the people of Portugal for their hospitality and the excellent organisation which had helped to make the IXth institutionalised ministerial meeting between the European Union and the Rio Group a success.

XVIth Ministerial Conference of The San José Dialogue

1. The sixteenth Ministerial Conference on Political Dialogue and Economic Cooperation between the European Union and the Member States of the Central American Integration System was held in Vilamoura, Algarve, Portugal on 22 February 2000. Colombia, Venezuela and Mexico attended as co-operating countries and Belize and the Dominican Republic as observer countries.

2. The Ministers emphasised the importance of the San José Dialogue's continuing, as it produced advantages for both regions and contributed to the consolidation of the peace and democratisation process and to the social and economic development of Central America.

The Ministers confirmed their joint commitment to the promotion of human rights and fundamental freedoms, in view of their universal, interdependent and indivisible nature. They insisted that special importance must be given to the promotion of equal rights and opportunities for men and women, the rights of the child, of ethnic groups and of minorities.

The Ministers expressed satisfaction at the actions commemorating the thirtieth anniversary of the American Convention on Human Rights and welcomed the fact that the Central American States intended to strengthen the present system in that area.

3. The Ministers emphasised the generally positive development observed in the consolidation of the rule of law in the countries of the Central American isthmus and the need to take the process further. With that in mind, they stressed the importance of continuing and intensifying efforts to consolidate democratic institutions, and to guarantee the independence and strengthening of the judiciary, the fiscal authorities and electoral tribunals, in order to achieve more efficient operation and better governance of public affairs as a guarantee of participatory democratic development. In this context, the Ministers stressed the need to find solutions to institutional and transparency problems.

The European Union confirmed its intention of continuing its support for the strengthening of democratic institutions and the rule of law in the region through aid projects, which contributed to the democratic development of the region.

The Ministers confirmed the need to continue intensifying the actions being carried out with a view to the strengthening of civil security in Central America. The European Union stated its firm intention of continuing to contribute in that area, through its practical support in the fields of qualification and training in general for the staff of the institutions responsible for public security.

The Ministers expressed satisfaction with both the positive development of elections in Guatemala, which are a major contribution towards the strengthening of the democratic system, and the determination of the new government to continue applying and developing the peace agreements there, particularly as regards electoral, tax, financial and military reform, and their efforts to end the non-application of the law. In that connection, they support the Guatemalan Government in the application of the recommendations of the Commission for Historical Clarification.

The Ministers welcomed the Agreement between Honduras and Nicaragua signed in San Salvador on 7 February 2000 in the presence of the Special Representative of the Secretary-General of the Organisation of American States. They also welcomed the decision of the two States to find a peaceful solution according to the International Law in their maritime frontiers dispute in the Caribbean.

4. The Ministers welcomed and emphasised the historical significance of the return of the Panama Canal to Panama and underlined the importance of that inter-ocean link in the interests of world trade.

5. The Ministers exchanged information on the process of reconstruction and transformation of the region following hurricane Mitch. The parties welcomed the EU's approval of the Regional Programme for the Reconstruction of Central America (RPRCA), worth about EUR 260 million. That programme continues the emergency aid granted by the Member States and the European Community in 1999. Both parties stressed the importance of the programme's being implemented without delay and at the same time noted the existence of other long-term programmes financed by the Member States.

Both parties recalled that the execution of those reconstruction programmes was to be carried out against the background of the Stockholm Declaration, with a view to contributing to the transformation of the societies of Central America, acting in a transparent and decentralised framework and guaranteeing active participation on the part of civil society, the NGOs and the private sector in the reconstruction process. Both parties agreed on the importance of complying with the principles of that Declaration in the process of reconstruction. They emphasised the great relevance of the Regional Consultative Group meeting planned for Madrid in 2000, following the Stockholm meeting, on account of the fact that this meeting will consider large-impact regional projects defined by Central America, which will contribute to its transformation and the strengthening of Central American integration.

6. The Ministers broached the subject of the prevention of natural disasters. The parties agreed on the importance of developing appropriate regional policies in this area in order to protect the environment and reduce the region's fragility.

The European Union expressed its intention of continuing its co-operation in that area and in that connection noted with interest the actions and efforts resulting from the conclusions of the XXth Ordinary Meeting of Central American Presidents held in Guatemala on 18 and 19 October 1999, which adopted the Strategic Framework for the Reduction of Vulnerability and Disasters in Central America and established the Central American Five-Year Plan for the Reduction of Vulnerability and the Impact of Disasters for the period 2000-2004, which form an integral part of the process of transformation and sustainable development.

7. The Ministers emphasised the efforts made in the process of regional integration in Central America, such as the progress made towards customs union, the coordination of positions for the purpose of joint trade negotiations with other countries or groups of countries and towards the realisation of a Central American Treaty on Investment and Trade in Services, among other things. The Ministers agreed on the need for greater momentum for progress and practical measures perceptible in this area, which were considered fundamental in view of the challenges of globalisation and international competitiveness.

The European Union again stated its readiness to support those efforts in coordination with the regional strategy approved by both parties within the framework of multiannual planning, on the basis of proposals made by the region itself, and within the framework of regional actions supported by the Member States. At the same time it reiterated its total readiness to consider supporting the realisation in Central America of a Central American programme for training and qualification in regional integration, in accordance with arrangements to be agreed upon.

8. The Parties acknowledged the importance of combating poverty and working towards economic and social fairness, and in particular the importance of promoting appropriate fiscal, economic and social policies which favour the creation of productive employment, more equitable distribution of income, rural development and the formation of human capital. These efforts will be boosted by the favourable international climate promoted by the Parties, which will encourage development and the enlargement of opportunities in their countries.

9. The Ministers applauded the results of the First Summit of Heads of State and Government held in Rio de Janeiro on 28 and 29 June 1999. That summit meeting was a contribution to the strengthening of the already excellent relations between the two regions, and posited the opening of new areas for cooperation. Both Parties again stated the importance of continuing this process, with a view to preparing for the Second Summit, to be held in Spain in 2002, and of putting into practice the cooperation priorities decided on at the first summit, strengthening the framework for relations and cooperation in the San José Dialogue.

10. At the same time, Ministers underlined their concern over the large quantity of light and small-calibre weapons in circulation because they increase public insecurity and crime and work against the consolidation of democracy, respect for human rights and economic and social development. The countries of Central America shared the principles of the EU joint action on combating the destabilising accumulation and spread of light and small-calibre weapons. In this respect, Ministers welcomed the region's determination to cooperate more closely with the EU joint action and thus to work jointly within the United Nations to prepare for and guarantee the success of the International Conference on light weapons in 2001.

11. Similarly, the Parties agreed to give top priority to current efforts to ease the suffering and damage to victims of the indiscriminate use of anti-personnel land mines. They reiterated the importance of the Ottawa Convention and the need to adopt

concrete measures in the short term for its implementation. The Parties stressed the importance, on the one hand, of the progress made in the region in implementing mine clearance plans and, on the other, of the Declaration on Demining in Central America. They also welcomed the destruction of 50 000 anti-personnel mines stored in Nicaragua. The European side offered to continue cooperation in the rehabilitation of victims of land mines

12. Likewise, the Ministers reaffirmed that combating drugs and drug-related crime, based on the principle of shared responsibility, and respect for international law constitutes a priority for both regions. Both sides repeated their commitment to apply the global action plan worked out by common accord at the meeting in Panama in April 1999. Ministers agreed to strengthen cooperation in this context, in order to define, in the framework of the Coordination and Cooperation Mechanism on Drugs between the EU, Latin American and Caribbean States, sub-regional strategies for combating drugs and drug-related crime.

13. The Ministers reaffirmed their commitment to the multilateral trading system and aligned themselves on what was agreed at the meeting of Heads of State and of Government in Rio de Janeiro, in connection with the launching of a new round of comprehensive trade negotiations without excluding any area and directed towards the gradual liberalisation of trade in goods and services, and will endeavour to achieve fair and balanced results.

14. The Ministers expressed the importance which they attribute to the human dimension and to the rational management of natural resources, in a spirit of fair, sustainable and mutually beneficial development.

15. The Parties expressed their satisfaction with the positive effects of the renewal of the system of generalised preferences for agriculture granted by the EU to Central America, and with the extension of the system to industrial products from 1 January 1999. They stated their conviction that these measures would bring considerable economic and social benefits to the region. Similarly, the Parties pointed out that the system of generalised preferences fitted into the Central American countries' struggle against the drug problem.

The Central American side reiterated its interest in ensuring that the preferences mechanism continued to be in force for a considerably longer period, in order to generate a climate of greater certainty and stability for Central American and European investors, while a new model of future economic relations with the European Union is taking shape, characterised by the fact that it generates reciprocal trade benefits.

16. The Parties expressed their satisfaction with the outcome of the European Union-Central America Trade Forum held in Brussels on 28 October 1999. This had made it possible to hold a useful exchange of views on the various means of strengthening trade relations and stepping up investment between the two regions. For that reason they confirmed their interest in continuing to hold such meetings.

In the same context Central America repeated to the European side the request made at the Second Trade Forum that consideration be given to the possibility of granting regional cumulation of rules of origin for Central America, Panama and the Andean Community. European Union Ministers indicated their willingness to examine this proposal positively, in the light of the existing rules on the subject.

17. The Ministers once more confirmed the need to strengthen economic relations between the two regions and for that reason emphasised the importance of investment. They repeated their mutual commitment to promoting initiatives designed to boost investment flows, especially from Europe to Central America. In this context they recognised, firstly, the importance of bilateral agreements for promoting and protecting reciprocal investment and avoiding double taxation and, secondly, the usefulness of continuing to promote a climate favourable to investment in the Central American region.

18. The Ministers also emphasised the positive contribution which horizontal Community programmes on economic, cultural and academic cooperation involving participation by new sectors of civil society in relations between the EU and Central America could make to encouraging exchange between the two regions. They agreed to step up active participation by Central America in these programmes.

In the context of combating marginalisation, the Ministers expressed their willingness to develop initiatives for cooperation in the area of distance education.

19. The Parties recognised the importance of using the funds

available under European Union/Central American Bank for Economic Integration (CABEI) programmes for reconstruction and change in the region. They drew attention to the progress achieved in this respect in the talks between the European Commission and the CABEI.

The Parties welcomed the EIB's continued participation in Central America and, in particular, the loan agreement signed with the CABEI and recommended stepping up and extending the EIB's activities in the region.

The Central American side again invited the European Union Member States to become extra-regional members of the CABEI, which would contribute to the strengthening of trade and investment relations between the two regions, and supported the Bank's participation in initiatives for alleviating poverty in Honduras and Nicaragua and in other countries.

20. The Ministers underlined their determination to ensure that the HIPC initiative could be swiftly implemented and emphasised the progress achieved in the funding of that intiative, which should enable the poorer and heavily indebted countries undertaking the necessary adjustment and structural reform policies to enjoy greater relief of their debt burden. This HIPC initiative should help in the fight against poverty.

The Central American side appealed to the European Union to ally itself to efforts to win the additional financial backing of the international community, through creative and innovative mechanisms designed to support the best efforts of creditor countries in the region in granting their intra-regional debtors appropriate debt relief in the framework of the Paris Club.

21. The Central American side recognised the support given by the European Union in various environmental projects and initiatives of importance for the region. Both Parties underlined the advisability of further extending and intensifying cooperation in this area. In this context they recognised the importance of taking into account regional differences and different levels of development. Ministers emphasised the importance of the Conference of the parties to the Convention on Climate Change to be held in the Hague in November.

22. Central America and the European Union expressed their satisfaction with the importance and specialised nature of the San José forum and with the exemplary relations which have existed between them for some time, as well as the solidarity which unites the people of both regions.

23. The Parties agreed to hold the next Ministerial meeting in Central America during the first half of 2001.

24. The Ministers expressed their gratitude to the Government and the people of Portugal for their kindness and their help in making this meeting a success.

The Declaration of the South Summit

1. We, the Heads of State and Government of the member countries of the Group of 77 and China, fully convinced of the imperative need to act in close unity for the primary purpose of working for a peaceful and prosperous world, have gathered here in Havana, for the first-ever South Summit, from 12 to 14 April 2000.

2. We remain fully committed to the spirit of the Group of 77 and China, which has helped our countries since the inception of the Group in the early 1960s to pursue a common and constructive course of action for the protection and promotion of our collective interests and genuine international cooperation for development. At this historic event, we reaffirm our commitment to the principles and objectives that have guided the Group from the start. We also rededicate ourselves to strengthening the unity and solidarity of the Group in pursuit of its declared objectives and to reinforcing the role it is called-upon to play in international economic relations.

3. We are fully convinced that it is indeed imperative to gather here at the start of the new millennium, a critical juncture in contemporary human history, to reflect on the rapidly changing world economic situation and to discuss the emerging challenges facing the South in the economic and social spheres and seek a solution to them. We have also been brought together fully convinced that at the dawn of the 21st century, we need to act decisively to map out a better future for our countries and peoples and to work towards the establishment of an international economic system which will be just and democratic.

4. We reaffirm that in our endeavours we are guided by all the principles and purposes of the United Nations Charter and by full respect for the principles of international law. To this end we uphold the principles of sovereignty and sovereign equality of States, territorial integrity and non intervention in the internal affairs of any State; take effective measures for the suppression of acts of aggression or other breaches of peace and encourage the settlement of international disputes by peaceful means in such a manner that international peace and security, and

justice, are not endangered; refrain in international relations from the threat or use of force against the territorial integrity or political independence of any State or in any other manner inconsistent with the purposes of the United Nations; develop friendly relations based on respect for the principle of equal rights and self determination of peoples; achieve international cooperation in solving international problems of an economic, social, cultural or humanitarian character, and in promoting and encouraging respect for human rights and fundamental freedoms for all without distinction as to race, sex, language or religion.

5. We emphasize that the process of globalization and interdependence must not be used to weaken or re-interpret the above-mentioned principles, which continue to be the foundation for friendly and peaceful relations among States and for the solution of disputes and conflicts by peaceful means. Furthermore, we stress that those principles inspire us to be fully committed to creating a more just and equitable international economic system that offers security for all people and growing opportunities to raise their standard of living.

6. We are committed to a global system based on the rule of law, democracy in decision-making and full respect for the principles of international law and the Charter of the United Nations. The new global system must reflect these principles.

7. We emphasize that development is the best contribution to peace, and that both are built together. Development is a continuing process, without arbitrary limits, through which we work for the prosperity and well-being of our peoples. Our highest priority is to overcome underdevelopment, which implies the eradication of hunger, illiteracy, disease and poverty. Although this is primarily our responsibility, we urge the international community to adopt urgent and resolute actions, with a comprehensive and multidimensional approach, to assist in overcoming these scourges, and to establish international economic relations based on justice and equity. Development for the well-being of our peoples will always remain the focus of action of the Group of 77, and in this respect we rededicate ourselves to that goal. We recognize the right of developing countries, in exercise of their sovereignty and without any interference in their internal affairs, to choose the path of development in accordance with their national priorities and objectives. We are, however, deeply concerned that international cooperation for development has been downplayed on the

agenda of the international community, including the United Nations system. In view of our declared goal, we therefore call on the international community at the dawn of the new millennium to give priority to the development agenda of developing countries and adopt urgent and resolute actions which will help them to overcome the obstacles to their development objectives.

8. In this context, and noting the interdependence of nations and the varying levels of human development worldwide, we stress the need for a new global human order aimed at reversing the growing disparities between rich and poor, both among and within countries, through the promotion of growth with equity, the eradication of poverty, the expansion of productive employment and the promotion of gender equality and social integration. We therefore, pledge to work together to confront these challenges for the benefits of all our people.

9. We note that in recent decades, external factors have constrained the realization of the economic potential of the South. This has adversely affected external trade and the flow of foreign direct investments (FDI) and other forms of investments. It is thus, imperative to promote a North-South dialogue based on a spirit of partnership, mutual benefit and genuine interdependence in order to expedite the removal of these constraints.

10. We are deeply convinced of the need to create a new spirit of international cooperation based on the principle of achieving shared benefits, but also based on common but differentiated responsibilities, between the developing and industrialized countries. We concur that in order to do this, it is imperative to develop collective and peaceful solutions for the global problems affecting the world today, and this demands a search for concrete mechanisms that will guarantee full and effective participation by the South in international decision-making, on an equal basis. In this regard, the international machinery through which global norms are developed and actions taken must therefore ensure that the countries of the South can participate on an equal footing in decisions which affect them most of all. In particular, the international economic governance institutions must promote broad based decision-making which is essential if we are to have a more equitable global political economy. In the context of interdependence we underline the need for expeditions measures to make the existing mechanisms more transparent, inclusive, participatory, interactive and broad

based. Similarly at the national level, we also note that the efforts to promote development require a true partnership that is more inclusive and participatory and which involves all stakeholders, including the private sector and NGOs.

11. We note with concern that the countries of the South have not been able to share in the benefits of globalization on an equal footing with the developed countries and have been excluded from the benefits of this process. Asymmetries and imbalances have intensified in international economic relations, particularly with regard to international cooperation, even further widening the gap between the developing countries and the industrialized countries. We are also concerned that, in the context of widening North-South gap, the social and economic conditions of the least developed countries (LDCs) have been deteriorating. Furthermore, the income gap within countries remains wide; social exclusion and inequalities are widespread; and the number of people living in poverty has increased. Urgent measures should be taken to address the needs of the large majorities of the population, in particular women and children, who are forced to live in extreme poverty, if this is not done, globalization will provide no lasting solutions to the essential problems of developing countries. For most of us, agriculture remains the mainstay of our economies, and the majority of our population still lives in rural areas; globalization has passed them by, but must address their needs.

12. We are concerned by the serious financial problems faced by many of our countries, with the systemic aspect of financial instability, the problems associated with excessive volatility in short-term capital flows, and the absence of an appropriate mechanism to regulate and monitor such flows, as well as hedge funds, and highly leveraged financial institutions. This situation urgently requires a fundamental reform of the international financial architecture, making it more democratic, more transparent and better attuned to solving the problems of development. It also requires the establishment of a clear programme that goes beyond the mere prevention of crises and includes actions addressing the interrelated problems of finance, trade, technology and development at the international level. The return to apparent normalcy of capital markets after the last crises should not lull us into complacency.

13. Even developing countries with limited or no financial markets suffer badly from financial volatility and contagion

through lower commodity prices brought about by declining commodity demand, cross-instability in financial and commodity markets, and the postponement of investment, which seriously weaken their overall economic situation and growth potential. Although financial contagion in these countries does not have systemic consequences, their economies are severely affected, and we therefore call on the multilateral financial institutions to take appropriate and timely supportive action to assist them.

14. As the focal point within the United Nations for the integrated treatment of trade and development and the interrelated issues in the areas of finance, technology, investment and sustainable development, UNCTAD should continue to examine these issues and to build a consensus for the reformulation of policies and options on globalization from a development perspective. We strongly reaffirm our commitment to the mandate given to UNCTAD at Bangkok to contribute to the ongoing process of reforms of the international financial institutions.

15. We recognize the need for our countries to continue with their efforts towards economic reforms to enhance sustained economic growth and sustainable development. We also urge the developed countries to take into account the possible negative impact of their domestic economic, monetary and fiscal policies on developing countries and to apply measures that are sensitive to the needs and interests of the South.

16. The world has become more interdependent than ever before. The persistence of endemic poverty and deprivation in the South constitutes a potential threat to the security and prosperity of the world. In this context we welcome the initiative launched for the creation of the World Solidarity Fund and encourage efforts by member States for its establishment. We underline the importance of this Fund in contributing to the efforts in the eradication of poverty.

17. We advocate the restoration of confidence in the multilateral trading system, which should contribute to the economic growth and development of the countries of the South. We insist on the need for the developed countries to fulfil their commitments fully and immediately to implement the provisions for special and differential treatment for the products and services exported by the developing countries, and for the strengthening of the system of trade preferences, which should also address the

needs of LDCs and the specificities of a number of small developing countries, while taking into consideration their problems of vulnerability and the risk of marginalization in the global economy. We urge that priority should be given to the liberalization of those service sectors where developing countries have the comparative advantage. In this respect, the key issue of the free movement of natural persons should be adequately addressed.

18. We note with concern that the liberalization of international trade has not provided benefits for all developing countries. There is a need to restore confidence in the multilateral trading system through full participation of developing countries, full and faithful implementation of the Uruguay Round Agreements in their true spirit, and effective attention to the implementation concerns of developing countries. We stress the principle of universal membership of the WTO and call for acceleration of the accession process without political conditionalities.. We urge all WTO members to refrain from placing excessive demands on developing countries seeking accession to WTO. We recognize that there is a need for consultations among developing countries to promote effective participation in the WTO.

19. We welcome the invitation extended by the State of Qatar to host the Fourth Ministerial Conference of the WTO, and we call for an effective participation in this conference so as to achieve the goals and promote the interests of the countries of the South.

20. We underline the urgent need to redress the imbalances in the present WTO Agreements, and in particular, with regard to the right of developing countries to promote their exports, which have been curtailed by the abuse of such protectionist measures as anti-dumping actions and countervailing duties, as well as tariff peaks and escalation. Meaningful and expedited liberalization of the textiles sector, which is of particular interest to developing countries, is another important market access issue which should be addressed by the multilateral trading system as a matter of priority. We also call for the mandated negotiations on agriculture in accordance with the provisions of article 20 of the Agreement on Agriculture. In agriculture the objectives should be to incorporate the sector within normal WTO rules. We also call for the full and prompt implementation of the WTO Marrakech decision on measures related to the possible negative effects of the reform programme on Least

Developed Countries (LDCs) and net food importing developing countries. The WTO Agreements should be implemented taking into consideration the need to extend the implementation period of particular Agreements that pose problems to developing countries. The review of Trade-related Aspect of Intellectual Property Rights Agreement (TRIPS) as mandated in articles 27 and 71 should make them more responsive to the needs of the South and to ensure access of developing countries to knowledge and technology on preferential terms. We will work towards harmonizing the TRIPS Agreement with the provisions of the sustainable use and conservation of biodiversity in the Convention on Biological Diversity.

21. We also call upon developed countries fully to implement special and differential treatment (SDT) for developing countries, to strengthen the system of preferences and to give the products and services of special export interest to developing countries free and fair access to their markets. In this connection, we urge all WTO members to grant the request of the European Union and the ACP Group for a waiver for the provisions of article 1, paragraph 1, of the General Agreement on Tariffs and Trade (GATT). We call upon the developed partners also to recognize the need to formulate appropriate measures to address the concerns of other eligible countries through strengthening the Generalized System of Preferences (GSP). Future multilateral trade negotiations should be based on a positive agenda and should take full consideration of the development dimension of trade and of the specific needs and concerns of developing countries. We call on all countries to support the mandate of the United Nations Conference on Trade and Development (UNCTAD) to assist developing countries in multilateral trade negotiations by providing sufficient resources. While recognizing the value of environmental protection, labour standards, intellectual property protection, indigenous innovation and local community, sound macroeconomic management and promotion and protection of all universally recognized human rights and fundamental freedoms, including the right to development, and the treatment of each issue in its competent international organization, we reject all attempts to use these issues as conditionalities for restricting market access or aid and technology flows to developing countries.

22. We have assessed the successful results of the recently held UNCTAD X Conference in Bangkok, Thailand, and request all countries duly to support the organization in its efforts to

contribute to the promotion of the development dimensions of trade in the context of globalization and of the liberalization of the world economy.

23. We further believe that the member countries of the Group of 77 should coordinate their priorities and negotiating strategies effectively to promote their common interests by shaping and directing multilateral trade negotiations to take into account the needs of developing countries so that trade policies serve the objectives of development, and also provide enhanced market access to developing countries.

24. We note with deep concern the continuing decline of official development assistance, (ODA) which has adversely affected development activities in the developing countries, in particular the LDCs, and we therefore urge developed countries that have not yet done so to act immediately to honour their commitment of directing 0.7 per cent of their Gross National Product (GNP) to ODA, and within that target, to earmark 0.15 per cent to 0.20 per cent for the LDCs. We also urge that the provision of official aid should respect the national development priorities of developing countries, and that conditions attached to ODA should be brought to an end.

25. We support the holding of a high-level United Nations conference on financing for development in the year 2001, which should address national, international and systemic issues relating to financing for development in a holistic manner. We call on all countries and relevant stakeholders, particularly the World Bank, IMF and WTO, to attach the greatest urgency and importance and to participate actively in the preparatory process and in the conference itself. We also welcome the offers by Indonesia and Colombia to holding regional intergovernmental meetings in order to provide inputs for the preparatory process for the event. In this regard, we invite the member States of the Group of 77 to consider offering to host the conference.

26. We note with concern the persistence of the external debt problem and its unfortunate consequences in the South, where the vicious cycle of debt and underdevelopment has become even further entrenched. We are alarmed at the fact that debt servicing has grown at a much greater rate than the debt itself, and that the burden of debt payments has become heavier in many countries of the South, including countries with low and middle incomes. We therefore underline the need collectively to

pursue a durable solution for the external debt problem of developing countries, including middle-income developing countries, which also addresses the structural causes of indebtedness. We further call for debt reduction arrangements for middle-income developing countries in order to expedite the release of resources for development.

27. We welcome the expanded initiative in favour of heavily indebted poor countries (HIPC), but consider that it should be extended, expedited and made more flexible, and that new and supplementary resources should be contributed. Debt relief or cancellation should not be at the expense of official development assistance. We advocate seeking renegotiation formulas applicable to middle-income countries, and promote the design of a global strategy for external debt, which addresses the interrelated problems of finance, the economy and development.

28. We note with grave concern the debt burden, which has put the least developed countries in a more vulnerable position, and urge the developed countries to write off their debt so as to relieve the LDCs of the burden and thereby strengthen their capacity to develop and to escape from the vicious circle of poverty.

29. We view with alarm the recent unilateral moves by some developed countries to question the use of fiscal policy as a development tool and to impose their own definition of so-called harmful tax competition. We reiterate the fundamental right of each State to determine its own fiscal policies and in this regard sovereignty of States must be respected. We subscribe to the view that the legitimate struggle against money laundering should not be used as a pretext to discredit genuine offshore financial centres because of their fiscal policies and incentives.

30. The contribution of the transnational corporations (TNCs) to sustained economic growth and sustainable development is determined by their global strategies, characterized by the search for increased competitiveness and ever-higher profits. Such a situation is not necessarily consistent with job creation and the realization of development objectives in many developing countries. Hence, we invite the relevant international institutions to address this dilemma with a view to attaining the proper balance between both objectives. In this context, we request UNCTAD and ILO, within their respective mandates, to study the merger trend among the TNCs and its impact on

unemployment as well as its competitiveness impact on Small and Medium-sized (SMEs) in developing countries. We also call on the TNCs to integrate development objectives of the host developing countries into their business strategies.

31. We recognize that within the South there are a group of countries, categorized as LDCs, which are at a particular disadvantage in the current phase of globalization and liberalization. Despite the efforts they are making and the attempts being made to help them, they continue to be marginalized in the world economy. We urge the international community to take special initiatives for them, particularly in regard to the eradication of poverty, equitable implementation of the WTO Agreements, free access to their exports in the world markets, debt cancellation, increased ODA, and incentives for FDI flows to the LDCs.

32. We reiterate our support for the initiative of the Group of 77 on the resolution entitled "Prevention of corrupt practices and illegal transfer of funds", adopted by the United Nations General Assembly at its 54th session. We support the demands in that resolution on the need for increasing cooperation at various levels, including the United Nations system, to devise ways and means of preventing and addressing the illegal transfer of funds and repatriation of illegally transferred funds to countries of origin. We also endorse the decision of the African and European leaders who, at the end of their recent summit in Cairo, resolved to take the necessary measures to combat corruption at both the national and international levels and to ensure that illegally acquired and transferred monies deposited in foreign banks are investigated and returned to countries of origin. We call on all countries and entities concerned to cooperate in this regard. We also call on the United Nations to commence preparatory work for the elaboration of a convention on this matter, to be submitted to the Millennium Assembly for adoption.

33. We recognize the special problems of small and vulnerable economies and encourage the relevant international institutions to take into account differences in the level of development and size of the economies of developing countries in order to create opportunities for full participation of the small economies and to increase their level of development. We insist that SDT for all developing countries, including small and vulnerable economies, should be recognized as a fundamental principle of the multilateral trading system.

34. We have recognized the handicaps faced by landlocked developing countries due to unfavorable geographic circumstances, and the concerns of transit developing countries. In the global economy the landlocked developing countries are being increasingly marginalized despite efforts on their part to devise appropriate national strategies. This is resulting in the further deterioration of their economies and already low living standards. We urge bilateral and multilateral donors to grant preferential treatment to landlocked and transit developing countries.

35. We are concerned by the special problems and vulnerabilities of small island developing states (SIDS), in particular the lack of market access and absence of special and differential treatment, which continue to create barriers for these countries to participate effectively in a rapidly globalizing world economy. We express concern that, although great efforts have been undertaken by the SIDS at the national level, there has not been commensurate support at the international level. We call for the strengthening of efforts at the international level in the implementation and follow-up of the Barbados Programme of Action. We emphasize the urgent need to maximize international support through, *inter alia*, strengthening the existing institutional agreements, mobilizing new, additional and external resources, and improving coordination mechanisms so as to focus and harmonize support for SIDS priorities. We note the regular incidence of natural disasters and their deleterious effects on the development of small and vulnerable economies and call for increasing international assistance for setting up and strengthening national, subregional, regional and international disaster prevention, preparedness and management mechanisms, including early warning systems, taking into account particularly the work accomplished during the International Decade for Natural Disaster Reduction.

36. We express our deep concern over the unprecedented floods in Southern Africa, and Mozambique in particular, that have caused loss of life, extensive destruction of infrastructures, deterioration of the socioeconomic situation and dislodgment and scattering of landmines. The unfolding humanitarian disaster is a further cause of concern. We commend the efforts of the Southern African Development Community (SADC) countries to address the devastating effects of the floods and thank the international community for the support, solidarity and humanitarian assistance rendered to Mozambique. We urge the

international community to participate in the International Donors Conference to be held in Rome on 3-4 May 2000, aimed at mobilizing financial resources for the reconstruction of socioeconomic infrastructures and rehabilitation of the victims in Mozambique. We also urge the developed countries to write off the external debt of Mozambique in the light of its current critical socioeconomic situation. We further urge the international community to increase its assistance to mine clearance programmes, taking into account the far-reaching effects of the floods.

37. We are deeply alarmed about the persistent critical economic situation in Africa, exacerbated *inter alia* by a heavy debt burden, low levels of savings and investment, depressed commodity prices, declining levels of ODA, and insufficient levels of FDI. In particular we note with dismay that poverty in Africa has now reached intolerable levels, with negative consequences for the stability of most countries and regions of the continent. In order to reach internationally agreed targets of reducing poverty by half by the year 2015, African economies must grow at a rate of 7 per cent per annum. Present trends must therefore be reversed, starting with the writing off of bilateral and multilateral debts and a substantial increase in financial flows, including ODA. This would enable African countries to resume much-needed investment in human and physical infrastructure, a *sine qua non* for putting the continent back on the road to growth and development. In this context, we welcome the initiatives taken by some developed countries to write off the debts of LDCs and also welcome the Declaration and Plan of Action which emanated from the first Africa-Europe Summit, held in Cairo from 3 to 4 April 2000, and which examined ways and means to increase the integration of Africa into the world economy by elaborating a comprehensive solution to its debt problem, improving its productive and financial capacities, removing market access and supply-side obstacles to the flow of its exports to the international markets, and assisting its efforts to attract a larger share of world investment. We therefore urge the speedy implementation of measures supporting the development efforts of African countries.

38. We are deeply concerned about the spread of HIV/AIDS and of parasitic diseases in developing countries in general and sub-Saharan Africa in particular. The scourge threatens to undermine great advances achieved in the social and economic fields in developing countries over the past decade. We urge the

international community to adopt concrete measures to mitigate the disastrous effects of HIV/AIDS, including by encouraging local production and ensuring access to drugs at affordable costs. Urgent assistance is needed, particularly to intensify information and awareness campaigns to make the causes of the disease and preventive measures well known to the masses. We call for the support of the international community to assist in addressing the challenge posed by HIV/AIDS in particular, but by all diseases in general, such as lack of adequate access to care and treatment for HIV/AIDS, tuberculosis and malaria epidemics. Policies to realize gender equality must be implemented with greater urgency in order to help combat one of the root causes of the spread of the disease. We also call for international cooperation, including South-South cooperation, and the establishment of multi-disciplinary mechanisms at regional and subregional levels to address these challenges.

39. We call for the design of investment promotion policies that correspond to national priorities for development, including capacity-building, technology transfer, infrastructure, the expansion of production facilities, job creation, and the diversification of exports and markets. The international community should support the efforts of developing countries to define FDI strategies for the creation of a favourable climate for investment.

40. We are convinced that South-South cooperation is an effective instrument for optimizing our potential to promote development through, among other things, mobilization and sharing of existing resources and expertise in our countries, as well as complementing cooperation programme with donor countries. We therefore commit ourselves to overcoming whatever factors that have limited this cooperation. We believe such cooperation is imperative in the context of globalization and that it should therefore it should be pursued with determination and political will. We also believe that South-South cooperation is an essential mechanism for promoting sustained economic growth and sustainable development and that it constitutes a vital element in promoting constructive South-South relations and in achieving self-reliance. In view of the foregoing we reiterate our determination to take necessary measures, including the identification of resources and the design of appropriate follow-up mechanisms to exploit its potential fully.

41. In this regard, we commend and support recent initiatives

taken by our countries to promote cooperation between Africa and Latin America and the Caribbean, as well as between Africa and Asia, as contained in cooperation agreements, to address issues of desertification, drought and land degradation in joint efforts to implement the United Nations Convention to Combat Desertification, particularly in Africa. We reaffirm our commitment for the full implementation of all the provisions of the Convention and call on developed countries and the international community to fulfil their financial commitments in this regard. We also support the decisions adopted at the African Ministerial Conference on Environment, held in Abuja, Nigeria, on 4-6 April 2000, and welcome the recent establishment in Tunisia of the observatory of the Sahel and Sahara.

42. We recognize that regional cooperation and integration is the most meaningful approach for the South to face the challenges of globalization and take full advantage of its opportunities. We also commend and support the work of the regional and subregional groupings established among developing countries to promote the sustainable socioeconomic development of their respective member States through regional integration and the harmonization of their economic and social policies. We further welcome and encourage the establishment of appropriate structures at the regional and subregional levels in the developing countries aimed at removing barriers to the free movement of goods, services and capital.

43. We note that the prevailing gap between the North and South in the scientific and technological field is still growing, and that the process of rapid accumulation of knowledge and technologies has not reached the hundreds of millions of people who continue to live in absolute poverty. It is essential to adopt appropriate measures to overcome the technological gap between the developing and industrialized countries and to work towards arrangements that facilitate the processes of technology transfer. While we are committed to promoting the development of science and technology by strengthening our political will, increasing the allocation of resources to that end, developing an appropriate institutional framework, and promoting technology and innovation through advanced, quality education, we urge developed countries to facilitate the transfer of technology, easing the costs and collateral conditions that presently stand in its way.

44. We believe that the prevailing modes of production and

consumption in the industrialized countries are unsustainable and should be changed, for they threaten the very survival of the planet. We firmly believe that technological innovations should be systematically evaluated in terms of their economic, social and environmental impact, with the participation of all the social sectors involved, including the business community, Governments, the scientific community, and other groups that have not traditionally been part of this process. We call on the developed countries to fulfil their commitment to provide developing countries with financial resources and environmentally sound technologies on a preferential basis.

45. We advocate a solution for the serious global, regional and local environmental problems facing humanity, based on the recognition of the North's ecological debt and the principle of common but differentiated responsibilities of the developed and developing countries.

46. We recognize that information technology constitutes one of the pillars of technological revolution and represents one of the most powerful development tools of our time. We should take full advantage of this unique opportunity to use information technology for development and to ensure that its benefits reach our people, as the future of the South depends on the inclusion of information technology in its economic and social development programmes. In this context, we underline the need to establish global knowledge partnerships that include encourage to developed countries to provide developing countries with the necessary assistance.

47. While we believe it is urgent to enhance our access to global information networks and to improve the benefits derived therefrom, we also emphasize the need to preserve our national and regional diversity of traditions, identities and cultures which may be affected by the globalization process, and to achieve a connection to contemporary international information and knowledge that does not entail sacrificing our national and regional cultures and identities. It is thus, it is necessary to pay special attention to the homogenizing tendencies that may threaten this diversity. In this context, we welcome the proclamation by the United Nations General Assembly of the year 2001 as the Year of Dialogue among Civilizations and stress the importance of this initiative as a means of enhancing understanding of diverse cultures and promoting North-South and South-South cooperation in a globalized world.

48. We firmly reject the imposition of laws and regulations with extraterritorial impact and all other forms of coercive economic measures, including unilateral sanctions against developing countries, and reiterate the urgent need to eliminate them immediately. We emphasize that such actions not only undermine the principles enshrined in the Charter of the United Nations and international law, but also severely threaten the freedom of trade and investment. We therefore, we call on the international community neither to recognize these measures nor apply them.

49. We are committed to promoting democracy and strengthening the rule of law. We will promote respect for all universally recognized human rights and fundamental freedoms, including the right to development. We pledge ourselves to provide transparent, effective and accountable governance, responsive to the needs of our peoples, which is necessary for economic growth, peace and prosperity. We reaffirm that every State has the inalienable right to choose political, economic, social and cultural systems of its own, without interference in any form by other States.

50. We express grave concern over the impact of economic sanctions on the development capacity in the targeted countries, in this context noting that Libya has now fulfilled all its obligations in terms of pertinent Security Council resolutions, and we urge the Security Council to adopt a resolution completely lifting the sanctions against Libya. We also call for the immediate lifting of all unilateral sanctions imposed against Libya outside of the United Nations system.

51. We affirm that bringing an end to the Israeli occupation and establishing a comprehensive, just and lasting peace in the Middle East is a prerequisite for economic and social development in the region. We reaffirm our support for the Middle East peace process on the basis of Security Council resolutions 242 (1967), 338 (1973) and 425 (1978) and the principle of land for peace. Peace demands complete Israeli withdrawal from the occupied Palestinian territory, including Jerusalem, and the achievement of a final settlement by the agreed-upon deadline of September 2000, as well as the establishment of the State of Palestine with Jerusalem as its capital. It also demands complete Israeli withdrawal from the occupied Syrian Golan and the demarcation of the 4 June 1967 line, as well as the unconditional withdrawal from South Lebanon and Western Bekaa to the internationally

recognized boundaries. We affirm that measures taken by Israel aimed at changing the legal status and the demographic composition of Jerusalem are null and void.

52. We call on all States in areas of conflict to refrain from attacks against civilian infrastructures, and consider the attacks on such targets as contrary to international law and detrimental to the pursuit of national economic and social development and to international trade.

53. We also express our deep concern over the air attack against the El-Shifa Pharmaceuticals Factory in the Sudan on 20 August 1998, and its negative impact on that country's economic and social development. We express our support and solidarity with the Sudan for its demand for a just and fair consideration of the matter by the United Nations on the basis of international law.

54. We stress the need to maintain a clear distinction between humanitarian assistance and other activities of the United Nations. We reject the so-called "right" of humanitarian intervention, which has no legal basis in the United Nations Charter or in the general principles of international law. In this context, we request the Chairman of the Group of 77, in conjunction with the Chairman of the Non-Aligned Movement (NAM), through the Joint Coordinating Committee, (JCC), to coordinate consideration of the concept of humanitarian intervention and other related matters as contained in the 1999 Report of the United Nations Secretary-General on the work of the Organization. We further stress the need for scrupulously respecting the guiding principles of humanitarian assistance, adopted by the General Assembly in its resolution 46/182, and emphasize that these principles are valid, time-tested and must continue to be fully observed. Furthermore, we stress that humanitarian assistance should be conducted in full respect of the sovereignty, territorial integrity, and political independence of host countries, and should be initiated in response to a request or with the approval of these States.

55. We call upon the international community to provide the necessary assistance to landmine clearance operations, as well as to the rehabilitation of the victims and their social and economic integration into the landmine affected countries. We express concern over the residues of the Second World War, in particular in the form of landmines which cause human and

material damage and obstruct development plans in some developing countries. We demand that the States responsible for laying the mines outside of their territories assume responsibility for the landmines, cooperate with the affected countries to get rid of them, and contribute defraying the costs of clearance and provide compensation for any ensuing losses and for reclaiming the affected areas for productive purposes.

56. We also express dismay at the increasing number of children involved in and affected by armed conflict. We call upon the international community to take concerted action to prevent and stop the use of children in armed conflicts and to assist in the rehabilitation of those affected children, as they are the future generation who would otherwise be able to contribute meaningfully to development.

57. We note with deep concern the increase of all kinds of criminal activities, including illicit traffic of arms, drugs and other products which are used to foster and finance organized crimes and all types of transnational crimes which continue to be a major factor of instability and a threat to development. In this context we are also deeply concerned by the trafficking of women and children, which is not only an offense against human dignity, but also a violation of International Law. We call upon all countries to join the multilateral effort of the international community to develop mechanisms that will strengthen cooperation in terms of prevention and elimination of these activities, so that the stability and prosperity of all economies and societies can be guaranteed.

58. We have appraised the importance of the Millennium Summit, and reaffirm the need for the Group of 77 and the NAM to duly coordinate their positions. In this regard, we endorse the proposal of the Joint Coordinating Committee that within the overall theme of the interactive debate being held at the South Summit on the role of the United Nations in the 21st century, there should be two subthemes, namely, "Peace, security and disarmament" and "Development and poverty eradication", and emphasize the need for developing countries to coordinate their positions to ensure, that their common interests and positions on every aspect of the two subthemes are fully reflected in the outcome of the Summit.

59. We welcome the decision to convene a special session of the General Assembly in the year 2001 to review the

implementation of the Programme of Action of the World Children Summit, and express our commitment to participate fully in the preparatory process for the special session with a view to improving the lives of children in our countries. We are concerned that economic and social marginalization of developing countries, especially the poorest nations, is having a deleterious impact on children.

60. In this context, we express our deep concern over the insufficient level of resources for development at the disposal of the United Nations, thus hindering its capacity to fulfil its main economic and social objectives in a manner commensurate with the needs and aspirations of the developing countries. We note with concern the increasing erosion of the role and the contribution of the United Nations to the promotion of genuine international cooperation for development. In this regard, we reiterate that the United Nations has a central role to play in world economic matters by promoting a vital boost to the development of the South and by transforming international economic relations, making them more fair and equitably and pledge our full support and determination to working towards its strengthening in this regard.

61. We believe that in order to realize the goal of universal peace and prosperity, we will need to promote international cooperation that is just and equitable, giving high priority to integrated and comprehensive development, which can be achieved only by working together, both among ourselves and with the developed countries. We can make ourselves heard as a single voice, with the courage, perseverance, boldness and political will needed for the major and urgent transformations of the international economic system to which we all aspire.

62. In adopting this Declaration, we recognize the need for an action-oriented programme of practical solutions to be implemented within a specific timeframe. To guide us in this process, we adopt the Havana Programme of Action. The Chairman of the Group of 77 is requested to forward this Declaration and the Programme of Action to the President of United Nations General Assembly in order to be circulated as official documents of the Millennium Summit and the Millennium Assembly.

The Declaration of Caracas

The VI Meeting of ministers of foreign Affairs of the Amazon Cooperation Treaty, held ill Caracas on April 6, 2000.

Highlighting the fact that the Amazon Cooperation Treaty is an unprecedented regional, concerted action and cooperation initiative, which has contributed and may contribute to a greater extent to the regional development of the Amazon territories and the improvement of the quality of life of the inhabitants of this region;

Acknowledging that in twenty-one years of existence of the Treaty its increasing relevance as a sustainable development instrument for the benefit of the Amazon peoples has been evidenced;

Being aware of the responsibility of our Governments regarding the future of the Amazon Region, an unreplaceable heritage of the eight Countries;

Reaffirming that the Amazon Cooperation Treaty provides the necessary framework to launch plans devised by the Contracting Parties, concerning the sustainable development of the region, through the preservation of the environment and the rational use of its natural resources;

Whereas the Amazon Countries play a significant role in the integration process in the region and its link with the international economy;

Bearing in mind that the purposes and objectives of the Amazon Cooperation Treaty coincide with the principles and the postulates of the United Nations Environment and Development Conference (UNEDC) - Rio de Janeiro, 1992, and the International Convention on Biological Diversity;

Convinced that greater cooperation efforts are required for the achievement of the sustainable development objectives in various parts of the world;

Reaffirming the postulates devoted in the Declaration of Lima on indigenous people;

Acknowledging that the cooperation process shall point towards the accomplishment of equity, dignified life conditions, better levels of health and social welfare, as fundamental right of our people;

Whereas the Member Countries have decided to establish the Amazon Cooperation Treaty Organization, in order to institutionally strengthen the coordination and joint action on topics concerning the Amazon Region and to strengthen the international cooperation on these topics;

Highlighting the fact that the Amazon Cooperation Treaty Organization represents an unequivocal proof of the priority sovereignly granted by our countries to the institutional strengthening of this regional cooperation mechanism; and

Conscious of the need to forge a common vision of development model for the region;

Do hereby subscribe the following Declaration

Adoption of Additional Practical Actions in the Amazon Context

The Member Countries of the ACT reiterate their commitment to carry out additional efforts in order for the Amazon regional cooperation to be more efficient and for it to achieve better practical results of wider scope.

To that end, the Countries undertake to accelerate the establishment of the Amazon Cooperation Treaty Organization, with its Permanent Secretariat, which will facilitate the internal and external coordination of the ACT.

Institutional Issues of the ACT

The future of the Amazon Cooperation Treaty and the suitable management of the region depend on the decisive political will and the unrestrictive support of the Contracting Parties to the strengthening of the Treaty and the, instances established in its framework. Within this complex process, there is a need to foster horizontal cooperation among the countries, to set the stage for institutional exchanges and a greater interaction of the Treaty with other regional and international agencies.

The establishment of the Amazon Cooperation Treaty Organization, provided with a Permanent Secretariat, at the request of the respective Governments, will have positive effects on the expectations about hastening the procedures within the framework of the Treaty and making the decision-making process more dynamic.

Strategic Role of the ACT

The Amazon Cooperation Treaty plays an essential role both as strategic instrument at the service of its countries and as a platform for the defense of common interests This resource must be used rationally and more frequently as a forum for consultation and consensual coordination of regional positions.

Environment

The Member Countries reaffirm the principles of the Declaration of the II Meeting of Presidents of the ACT, held in Manaus in February, 1992, concerning the coordination of the requirements for economic and social development and the preservation and protection of the environment, in order to eradicate poverty within the framework of innovated international cooperation and in accordance with the progress made worldwide in recent years.

It is necessary to foster the. genuine sustainable development of the Amazon region, by means of an appropriate use of biodiversity, allowing –at the same time– its preservation. Given the fact that the biological diversity and biotechnology offer wide opportunities for sustainable development, the Amazon countries must coordinate positions in the specialized fora to ensure the intellectual property and protection of traditional knowledge on its biogenetic resources.

In this context, the Member Countries of the Treaty deem appropriate to foster the signature and ratification of the Protocol of Cartagena on Biodiversity, in the occasion of the V Meeting of the Conference of the Parties of the Agreement on Biological Diversity, which will be held in Nairobi on May 15-26, 2000, with the purpose of controlling the transborder movements of the modified living organisms that have negative effects on the human security and the environment.

The Ministers of Foreign Affairs have noted, with interest, the efforts that environmental authorities of the member countries of the Amazon Cooperation Treaty have been carrying out, through a number of dialogue processes, in their meetings of La Guaira, Cochabamba and Quito, with a view to seek joint positions on the environmental issues of the international agenda, including the Clean Development Mechanism (CDM) set forth by the Protocol of Kyoto of the Framework Convention on Climate Change, Also, of working integrally on the establishment of synergies between the Convention on Biological Diversity and the Convention on Climate Change and other international Conventions concerning the environment and the renewable. natural resources.

Forests

The Member Countries are fully aware of the fact that forests have a value that goes beyond the purely commercial level and reiterate their importance as key element to achieve sustainable development. In addition, they consider that the environmental, social and cultural services rendered by them must be taken into account when designing the policies and programs for the promotion of forests' sustainable management.

They reaffirm that forest policies are an important dimension in the development strategies of each country and that they must be aimed at harmonizing the various roles played by the forests and, within it, to emphasize the role played by the indigenous communities of the Amazon Region through the conservation of their natural environment: the Amazon Forest.

The Member Countries express their aspiration to see the completion of the Tarapoto Process, which started in 1995, for the adoption of Amazon forest sustainability criteria and indicators, through the culmination of all the consultations and the holding of the II Regional Meeting, for the adoption of such criteria and indicators.

The Member Countries express their pleasure for the results of the negotiations in the Intergovernmental Forum on Forest achieved this last February and reaffirm the relevance they attach to the adequate information of the United Nations Forum on Forests, as well as the full implementation of the recommendations and agreed action proposals, especially the establishment of funding and technology promotion mechanisms promoting the sustainable management of forests.

Regional Struggle against Illicit Activities in the Amazon Region

The Member Countries reiterate their concern for the illegal activities carried out in the Amazon Region, which affect the security and development of the States of that Region. As a consequence, they express their support to the actions currently taken to counteract such illicit activities, and manifest their decisions to foster, in the framework of the Amazon Cooperation Treaty, the initiatives aimed at solving problems including illicit crops, drug trafficking, indiscriminate tree felling, biopiracy and illegal mining.

Transportation, Infrastructure and Communications

The Member Countries of the ACT admit it is critical to deepen the consideration of actions to realize one of the greatest aspirations of the Treaty, i.e. the establishment of an intermode transportation infrastructure through the Amazon Region. The development of the physical, energy and communications infrastructure is still a key challenge in the whole Amazon Region, as well as in the wider context of South America. In this context, the Ministers of Foreign Affairs are pleased with the inclusion of this issue in the summoning by the Government of Brazil for the First Meeting of Presidents of South America, to be held in the second semester of 2000.

Science and Technology

The Member Countries of the Treaty shall consider the development of science and technology as a critical issue in their national plans, for the establishment of scientific and technological bases that fulfill the needs of the Amazon Region, giving priority to scientific research and access to high-end technology, The scientific and technological research organizations, universities and other tertiary education institutions are urged to assume a key role in all areas of scientific, technological and humamistic knowledge concerning the Amazon Region.

Environmental Education

The Member Countries express their satisfaction for the beginning of the works of the Special Commission of the

Amazon Region on Education, CEEDA, held in Quito, in October 1997. This initiative will promote the inclusion of the environmental issue in the educational programs, especially in primary education, and will significantly widen the prospects of providing the citizens of our countries, since childhood and throughout life, with a mentality and an attitude geared to the defense and protection of their natural environment.

Indigenous Affairs

They ratify the importance they attach to the preservation of the cultural identity of the indigenous people and the local communities in the framework of their respective national legislation. In this context, the Governments undertake to strengthen the national institutional mechanisms for the development of the indigenous communities aimed at protecting and ensuring the habitat of such communities and improving their quality of life.

Health

They agree to support and strengthen integration and cooperation mechanisms in the area of health, which shall be aimed at the achievement of equity, dignified living conditions and better levels of social well-being for our people.

Ecotourism

The Member Countries highlight the importance of the potential of ecotourism in the Amazon Region as a means to promote economic benefits and as an instrument to achieve the sustainable development of the region. In this context, the work of the Special Commission of the Amazon Region on Tourism (CETURA) must be fostered, through the provision of resources for carrying out their ecotourism-based regional development projects in the Amazon Region. In this context, the Governments undertake to promote the study on the Ecotourism Potential in the Amazon Region, which shall be considered by CETURA in its next Ordinary Meeting, to be held in Peru.

International Financial Resources

The Member Countries undertake to continue giving their political support to the negotiations of the pro-tempore Secretariat aimed at mobilizing international resources towards the Treaty to finance the sustainable development joint actions agreed upon by the Member Countries.

In this context, Member Countries acknowledge, with deep appreciation, the financial and technical support granted by countries such as the Kingdom of the Netherlands, the Kingdom of Finland and the Federal Republic of Germany, and by International Organizations including the Food and Agriculture Organization of the United Nations (FAO), the European Union, (EU), the Inter American Development Bank (IDB), the United Nations Development Program (UNDP), the World Bank (WB), the Global Environmental Facility (GEF), the Organization of American States (OAS), the Andean Development Corporation (ADC) and others,

In this new stage, which begins with the coming establishment of the Amazon Cooperation Treaty Organization and its Permanent Secretariat, we the Ministers make an appeal to the international community to continue supporting, technically and financially, the Special Commissions already established within the framework of this initiative of concertation and regional cooperation for the Amazon Region.

Subscribed in Caracas this sixth day of April, 2000