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**"CHILE AND EUROPE : WORKING TOGETHER
ON THE NEW TRADE CHALLENGES"**

Remarks by

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INTRODUCTION

It is fitting that the central speaking engagement of my official visit to Chile should take place before a distinguished gathering of businessmen such as this. In the global economy, on which Europe as well as Chile depends so heavily for future prosperity, it is business as much as public administration that calls the shots. Businessmen of partner nations must talk more, not only with each other but with their governments, in order to ensure that we on the political side understand what business needs for the decades ahead. In the case of Chile and Europe, the needs seem to me very much on the same lines.

COMMON INTERESTS

As global traders, Europe and Chile share the same commitment to the open and fair worldwide trading rules of the World Trade Organisation. We are both committed to further liberalisation, and I was pleased to work towards just that objective with the Chilean government, and in particular with Minister Garcia : both at the Singapore Ministerial Meeting of the WTO in December, and since then in the breakthroughs we have achieved on both telecommunications liberalisation and on the reduction of worldwide import duties on information technology products.

Taken together, the reduction to zero of import duties for 90% of worldwide trade in IT products and the opening for worldwide competition of basic telecommunication service markets, provide a solid basis for the world information society. Not only does that society mean that I can read in Brussels the morning headlines of **El Mercurio** on Internet while Santiago is still asleep, or that the speech I am making today will be available this evening for any interested Internet reader in Tokyo or Washington : the IT revolution means hard financial earnings and efficiency gains for every manufacturing enterprise around the world. That is the sort of immediate benefit that WTO cooperation can bring us.

The world market is of course a rough place: you win on world markets only if you have a strong home base. In this, the Chilean business community is fortunate, with a solid history of high growth and containable low inflation at

home. European financial experts class Chile among the "near tigers". Only a domestic savings ratio that while high for this continent is well below Asian levels seems to hold Chile back from even more impressive performances.

Unsurprisingly, therefore, Chile is a high performer in the trade stakes. While Latin America as a whole has slipped from surplus to deficit in its trade with Europe, Chile has had a consistent bilateral surplus for the last quarter century, and the European Union remains the biggest single market for Chilean exports. We try to do our bit to help, keeping the average tariff on Chilean exports down to a little over two percent, while over eighty percent of Chilean exports are imported duty free or at preferential rates. Minerals, fish products and cellulose continue to be big earners, but Chile is also doing remarkably well in selling fresh fruit, wine and other high value added products. This shows the potential for Chile to break into lucrative new markets in Europe, where innovation, and a quality product will rapidly earn the respect of a demanding and wealthy consumer society.

But our common interest is more than just an interest in each other. Chile is playing a key role in hemispheric trade liberalisation, whether with North America or with Mercosur. Chile is also a member of APEC and a major player in the Asia-Pacific. These priorities match the European vision. We too are trying to boost our relationship with North America, to pursue freer trade not only with Chile but with Mexico and with the Mercosur customs union. We also want to build a relationship with Asia, not least through the Asia-Europe meetings, inaugurated at summit level in Bangkok just a year ago.

I like to think that its because we both have this broad vision of the world that Chile and the European Union find it so easy to work together on the global issues as well as on bilateral liberalisation.

NOT JUST TRADE

Nor is the relationship a purely economic one. The shared history of Europe and of Chile goes without saying. In good times as well as in bad the fundamental values of Chile and of Europe have remained the same and it is on those values that we now build our relationship. In Europe, we still very much remember the impact of the events of 1973. This has undoubtedly held back for many years trade and investment, which would have been forthcoming under normal democratic conditions. These conditions have now happily been restored, but it takes time for businessmen to regain confidence. I am pleased to see that this is now happening and at the same time see confirmation of the fundamental values on which we build our relationship.

Here in Santiago, thirty-five years ago, the European Commission opened its first representation in the whole of Latin America. Since then, our relations have gone from strength to strength. The key event that I always remember is the visit just two years ago to Brussels by the President of the Republic, when he met Commission President Santer as well as Vice-President Marin and myself, and we laid the groundwork for the negotiations which produced in record time the Framework Agreement for Co-operation signed in Florence in June of last year.

The objectives of that agreement are ambitious: not only economic liberalisation but also close political association. The overall framework set by the agreement is now in place, and officials are already hard at work on both sides to identify the factual basis for the negotiation still needed in a subsequent phase to lead to full free trade within the WTO framework. Before we have identified what the key problems are, it is too early to say how long it will take to resolve them. But it is not too early to say that you the businessmen, here in Chile as in Europe, must play an active part in the months ahead if governments on both sides are to set themselves the right objectives and move with the speed we all desire.

THE GLOBAL AGENDA

Having looked at the solid and dynamic relationship we have bilaterally, let me conclude by identifying the new multilateral trade challenges that I think we need to tackle.

We have already made much progress in the WTO Ministerial in Singapore last December. I think that it was pretty clear there that the need for a new global negotiation to secure another push towards free markets is generally accepted. No formal decision has been taken, nor is one needed before 1999. But I am confident that when that time comes we shall launch what I have called the "Millennium Round", that we will launch a Round with ambitious objectives and a tight timetable, and that the results of that Round will be influencing your business plans in well under a decade from now.

The next Round will have to tackle all the problems we looked at in the last Round. Agriculture must be further reformed and agricultural trade made more open. Import duties on manufactures need to be further reduced. Technical barriers to trade must be further circumscribed and government procurement liberalised.

On the services front, general free trade rules were implemented for the first time just two years ago. We will need in the next round to make further progress across the board. Already, the level of market opening commitments is useful, and has been improved by the deal on telecommunications. We hope to reach a comprehensive and permanent deal on financial services by the deadline of December this year.

And in this context, I would like to make a call for a new Chilean approach to WTO treatment pension funds. Chile's pension funds are the envy of the continent, and an example to the world. Private sector funding is the way of the future in this area. And a broader development in South America of private pension funding will begin to resolve the problem of low domestic savings rates, which has in turn made Latin America dangerously dependent on foreign capital for much of its growth to date. So far, Chile has held back from offering to bind for the future in WTO its policy allowing foreign participation in Chilean pension fund provision. I hope that Chile will change this during this year's WTO talks : private pension funds also need to be free to become part of the world financial services market if they are to be a solid basis for future generations. And Chile can show the way.

That is the current WTO agenda. But WTO's work must not stop there. I think there was increasing recognition at Singapore of the need for a broader WTO agenda. In a global economy, clearer rules are needed not just for the transfer of goods and services from one economy to another but for the investment that increasingly we need around the world and for the stronger pro-competition rules that we need to see, if the world market is to be a fair market.

Foreign direct investment is fast emerging as the life blood of the global economy. It is a North-South phenomenon, with more of the European Union's foreign direct investment going to non OECD partners than to the rest of the OECD. FDI now outstrips public international development aid. It provides much needed stability in economies which are growing fast but which lack a deep domestic capital base.

The old 1960s suspicions of foreign investors have evaporated. All governments around the world, developed and developing alike, are competing with each other to create a regulatory and economic climate attractive to major green field manufacturing development. But times can change, and I think there is a recognition that alongside this spontaneous process of liberalisation, we need some rules. Rules to ensure that if times become hard in the future, the current openness is not clawed back by public sector panic. Rules to ensure that there is widespread public recognition that the playing field for investment is smooth, and that major economies do not indulge in beggar-my-neighbour tactics, designed to monopolise for themselves the investment projects available at any given time. There have been some press reports of friction of this sort between Brasilia and Buenos Aires in recent weeks : clear international rules will help to avoid such friction.

The same is true for international cooperation in the field of **competition policy**. I think there are some in South America who would recognise the dilemma that we too have faced in Europe : privatisation and deregulation are good things, but a wholly free market will only deliver benefits to all if there is sufficient public regulation to prevent the abuse of continued dominant positions and to prevent unsound financial or other operators abusing the confidence of their customers.

This general need for regulation certainly holds good in the field of competition policy. Recent friction between the US and Japan over cars, and current difficulties between Europe, Japan and the United States concerning the openness of the Japanese (and indeed the US) markets for photographic film, have both turned on the question whether national authorities maintain fair competitive conditions in their domestic markets. It is high time that the WTO looked at this question, and I believe it is in the interest of all that they should do so.

Conclusion

I want to leave time for some discussion, but I hope that with these examples I have given some sense of the breadth of the challenges that face Chile, Europe and indeed the rest of the world. We have a lot of work in hand and this has already been a busy year for trade liberalisation. There is more to be done, however : not just to meet this year's deadlines but to lay the foundations for the next big push for freer and more prosperous economies around the world. I am confident that Europe and Chile will be partners in that endeavour.
