

Graduation 2008

Acceptance Speech by Honorary Graduate Her Excellency President Michelle Bachelet

Ladies and Gentlemen,

First, I am most grateful for the honour conferred on me by the University of Essex.

I receive this doctorate Honoris Causa as a recognition of my country and the success we have had since the return to democracy in 1990.

I am also personally honoured to receive this distinction from a university as prestigious as the University of Essex. Many Chilean professionals have undertaken post-graduate studies here, and they return to Chile to disseminate the fruits of that learning.

I am proud to share this Doctorate with personalities as diverse and relevant as human rights activist Graca Machel, historian Simon Schama and Nobel Peace Prize winner and ex-President of Costa Rica, Oscar Arias.

Both the University of Essex and, of course, Canning House, have strong bonds with Latin America. The University's Latin American Centre makes a very relevant contribution to the integration and mutual understanding between the United Kingdom and the countries of South and Central America.

At the same time it is particularly moving to recall the sentiments of George Canning, a great friend and supporter of Latin American independence. He knew that the New World could, as he put it, "redress the balance of the Old". In this respect, Canning foresaw the role that the region would play in geopolitics. What he could not have predicted, however, would be the degree of friendship, cooperation, and commercial exchange that would develop.

Yes, we have very different realities. But these must not be, and has not been, an obstacle to the continued good relations between, as Canning said, the Old World and the New.

In this spirit, I would like to share some thoughts on our region of Latin America, about the challenges imposed on us by the modern world, the world of globalization, challenges that affect our economies.

The first great challenge involves something that Europe did and continues to do very well: A policy directed towards great agreements and not towards great dissensions.

The European experience has been in that sense very different to what we have seen in our region. In a continent devastated by two world wars, the countries of Europe reached fundamental agreements on key issues such as citizenship, prosperity and social justice, putting these in the centre of the public agenda.

It is important for us to look towards Europe and see what can be achieved when there is the willingness to agree general consensus.

Our history, as a region and as a nation, has been very different. In the same decades in which European nations were rebuilding their economies, coming together economically, but also politically, when they were building their welfare systems, we were consumed by ideological and political confrontations that led to some of the worst years in our lives as independent nations.

But I feel we have learnt the lesson. In the last decade, democracy has become almost unchallenged as the predominant system of government. Simultaneously, the macroeconomic fundamentals have consolidated in the majority of our nations and the region is increasing its competitiveness, new markets are opening and integration is advancing.

However, I insist: The willingness to build great agreements is the central issue of the challenge facing the nations of the region.

The second challenge that I would like to put forward today refers to something that has been essential since we recovered democracy, in 1990, but one that my government especially has put as the central issue: to be greater in social protection and social cohesion.

It is not possible to build solid economies or stable democracies when large sectors of the population are excluded from progress. In other words, democracy has to deliver.

The absence of policies that effectively promote social cohesion weakens sentiments of solidarity, belonging and identity. When this occurs, democracy is also weakened, given that disenchantment grows and participation goes down. Weak democracies will have more difficulties facing the current demanding agenda.

So we must demonstrate that democracy can provide sustainable growth, reduce poverty and provide equal opportunities.

We have always said in Chile: we need to do both things. We need to continue growing, but at the same time, we need to continue developing social justice. We say also, "grow to include, include to grow".

When a person speaks of growth, when we speak of development in Latin America, it should go hand in hand with equity. Our economic agendas must consider that dimension.

The third challenge is greater regional integration.

The reforms of the 1990s resulted in a significant liberalisation of Latin America's trade regimes. This led to exports becoming an important source of growth.

The share of exports in GDP almost doubled in a decade from the mid 90s to the mid 2000s, surpassing 20%. The region has learnt that in order to grow it must remain integrated to global trade flows.

Trade liberalisation occurred on two fronts:

First, tariffs and restrictive import regimes were liberalised unilaterally to integrate the economy to world trade.

Second, and as a complement of the above and not a substitute, regional integration schemes were promoted with a large number of free trade agreements and other arrangements being negotiated. The decade saw the creation of MERCOSUR and the Andean Pact becoming the Andean Community.

Chile actively participated in this effort by negotiating free trade agreements with almost all Latin American countries, a policy which allowed us to keep our low and uniform import tariffs.

Intraregional exports have grown strongly in the face of the lowering of trade barriers and free trade agreements.

However, intraregional trade in Latin America remains low by comparison to other regions. The share of intraregional export in total exports increased from 14% in 1990 to 17% in 2006. This contrasts with shares of intraregional trade of 66% in the European Union, 45% in NAFTA and 28% among the 10 ASEAN members.

This relatively low share is due to a number of reasons. The first is Latin America's continued specialisation in the export of commodities. These generally have the rest of the world as their destination rather than the regional market. This is not necessarily a bad thing, particularly given the current high prices for these goods. However, it shows that there is little integration of the region's manufacturing chains. Greater intra-industry trade within the region would lead to greater inter-dependence, less volatile intraregional trade and strengthening of mutual economic links so that growth in the larger economies would support growth in the smaller ones.

The second reason is the relatively high costs of intra-regional trade in Latin America. These derive from a lack of adequate infrastructure, poor logistics and administrative costs. That is why, in a joint effort with the governments of Bolivia and Brazil, my government has committed to having operational by 2009 a bi-oceanic corridor of 3000 kilometres, from Santos in Brazil to Iquique and Arica in Chile through Bolivia.

Resolving these issues by investing in infrastructure, improving the logistics and eliminating unnecessary administrative steps for exports, would also greatly increase Latin America's competitiveness, attract direct foreign investment and promote the diversification of exports globally.

Furthermore, greater integration would allow us to take better advantage of the opportunity we see in Asia. We must build commercial alliances, produce synergies among our countries and strengthen productive complementation with Asia. We are actually talking with the countries from the Pacific Basin, in order to work together in that subject.

The fourth challenge that we currently face is knowing how to take full advantage of the high prices of our commodities in order to lay the foundations for stable growth and a less volatile macro economy.

This is probably the greatest challenge that we face because it requires a change of attitude. It requires more responsibility from those in power. It makes us think of the future. When your wallet is full of money, it is more important to think of the next generation than the next election, and believe me, it is not always easy.

Latin America does not have a good track record in this sense. We have wasted numerous opportunities in the past. My own nation did not know how to take advantage of the saltpetre riches a century ago. A Chilean historian described Chile as "a case of frustrated development".

Populism has been a reality in our countries. The temptation is large. From time to time, we experience these booms in commodity prices that fill the coffers at the disposal of those in power, who have not always acted with a due sense of history.

We all know the history: Money very badly spent, funds used to win elections; uncontrolled inflation; corruption and generations of Latin Americans condemned to poverty.

Today we are again experiencing a commodity boom. The price of the principal Latin American exports has doubled or tripled in recent years. In this, we see the record price of crude oil, copper, iron ore, wheat, soybeans and others as a result of increasing demand particularly from China.

This time the boom finds us in a better position than before; inflation is basically under control in almost all the region and the macro fundamentals are also much better. Fortunately, there are many of us who have learnt the lesson from the past.

What are we doing in Chile, where as you know, the price of copper benefits us enormously?

We have made two bets:

First: we have decided that we are not going to spend. We are going to invest. We are going to invest in our own productivity. We need to renovate our productive structure and to do that we know that we need to do many things that we have not done before.

I say invest and not spend because we are investing, principally in three areas:

One, in education. If we want to seriously compete in the big leagues, our human resources, our people, must be better prepared.

In 2008, we increased the education budget by over 900 million dollars. I reiterate, this is only the increase we made this year. The subsidy per child given to each school according to our system, doubles in the case of students with learning disabilities and those from vulnerable social situations.

Two, we are investing in innovation and technological transfer. The entire R+D system is being redesigned as well as investment in innovation projects throughout the country. We have created consortiums between universities and productive sectors, which receive our support. We have invested record sums in these projects.

Three, we have invested in infrastructure with a special focus on competitiveness. As you know, thanks to a very innovative scheme of BOT, in the 90's Chile renovated a large number of our ports, airports and highways.

What is our current situation? We need to move the most isolated producers closer to this infrastructure. We have made a thorough study of our territory. We have designed macro productive zones and we have identified a series of clusters to develop. We are building record numbers of roads, uniting small productive centres with major highways, small and medium-sized piers and tourist routes. This will all lead to a more integrated pattern of development, not only for the large but also for the small and medium sized producer.

The second bet that we have made is also important. Just as we have decided to invest, we will also save.

Politically, it has not been easy. As in all countries that have not reached development there are many unresolved needs. Proposing to save part of the resources coming from the commodity boom is something that is not always understood.

That is why a great deal of political will is required; the will to withstand spending pressures while creating regulatory institutions that make this saving transparent.

We have two funds that operate abroad. We call them "responsibility funds". One of those funds is designed to finance future pensions.

This is how can we assure in the future, that if the price of copper goes down – I hope not, but you never know – we will have the money to guarantee these benefits.

The other one is to finance social spending. In this way, if the price of copper reverses its trend over a long period, the nation knows that the social benefits that we are granting today will not be eliminated tomorrow. The funds have an additional advantage: The profits from the commodities are saved abroad, keeping our currency at a competitive price and avoiding inflationary pressure.

I must insist that taking advantage of the current price of commodities is one of the most important challenges we face today. It is a challenge that demands that Latin Americans do not make the same mistake again.

In Chile, we have decided not to spend. We have decided to invest and save.

I have told you these are the challenges we have in Latin America, and we are working together on that. For example, Unasur, which is the summit of the presidents of South American countries. We are working on four main areas: infrastructure, energy, social policies and education. We understand we need all to develop, in order to have better life conditions in the whole region. Latin America is doing pretty well, but we still have 205 millions of people living in poverty, and these are terrible numbers.

We still have to work on: creating basic consensus, social cohesion, integration and knowing how to take advantage of the commodities boom.

What do these four challenges tell us?

They tell us that it is up to us to do it.

For the first time in many years, Latin America has an opportunity to move ahead and take the leap to development. We have recently seen that the current international financial crisis has not hit us as hard as other countries, even developed nations.

That is why I say, we can take advantage of this opportunity. Meeting the challenges depends on us.

I would like to express my gratitude for the honorary doctorate given to me and for this opportunity to share these thoughts with you.

On this visit to the United Kingdom and the Leaders' Summit starting tomorrow, we hope to strengthen ties with the governments that also face the future with an inclusive perspective. Maybe the magnitude of the problems is different, but I am sure that in United Kingdom there are also challenges related to education, health, quality of life. We are all very aware of climate change, also.

We will face every issue from an inclusive perspective, thinking that we want a world with dignity, quality of life and where every person has the life they deserve.

Thank you very much.