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26 MAI 1999

***LA COHERENCE DES POLITIQUES DANS L'ECONOMIE MONDIAL :
AVANTAGES ET ENJEUX DE L'INTERDEPENDANCE***

BRESIL

Déclaration

**Mr. Luiz Felipe LAMPREIA
Minister of External Relations**

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SPECIAL DIALOGUE AT MINISTERIAL LEVEL WITH INVITED COUNTRIES

26 MAY 1999

***POLICY COHERENCE IN THE GLOBAL ECONOMY:
OPPORTUNITIES AND CHALLENGES OF INTERDEPENDENCE***

BRAZIL

Statement

**Mr. Luiz Felipe LAMPREIA
Minister of External Relations**

**Notes for Ambassador Luiz Felipe Lampreia
Minister of Foreign Relations of Brazil
Special Dialogue at Ministerial Level
with Non-Member Countries
Paris, 26 May 1999**

Mr. Chairman,

- I wish to thank the OECD for this timely initiative of inviting a few non-member countries for its Annual Ministerial Meeting and for a frank and open discussion on current economic issues that affect all of us. Brazil has been following with interest the work of this Organization and is pleased to participate in this dialogue.
- The recent events in Brazil -- the crisis, its management by the Government and, most recently, the positive reactions of our economy -- are themselves an example of the opportunities and challenges of interdependence and of the increased need for dialogue and cooperation between the so-called emerging economies and OECD members. I will go through some of the background and the current situation of Brazilian economy, before presenting a few suggestions of future work within the OECD.

Background of the Brazilian situation

- The main features of the Brazilian economy in the mid-90's are well known: the resumption of foreign direct investment at unprecedented levels and a massive privatization program.

- Brazil also chose to face the shortcomings and deficiencies of our banking system in 1995/96. This pre-emptive strengthening strategy regarding the financial sector proved to be essential to minimize the damage by the time of the Russian crisis in 1998
- The Government also conducted structural reforms in key areas such as social security, public administration, the end of State monopolies and of restrictions of private investment, in particular through the establishment of a friendly environment for foreign investment
- **The international crisis and Brazil's reaction to it**
- The 1998/99 financial crisis led the government to accelerate economic reforms (particularly fiscal reforms), that ought to lead to more stability in the Brazilian economy
- Faced with the consequences of the crisis, Brazil basically followed a two-way approach: a) a severe tightening up on the financial front and the adoption of a multi-year fiscal adjustment program and b) the negotiation of an international agreement involving multilateral organizations and most of the developed countries' governments
- The continuing pressure on international reserves and eroding market confidence led the government to drop the gradual approach to the adjustment of its exchange rate policy it had been following until January and to allow the currency to float.
- The new exchange rate regime, while putting some pressure on domestic prices -- which we managed to contain -- has a potential of enhancing the

ability of our products to compete both in the domestic and foreign markets. It must be noted that this potential of increased exports has not yet materialized, for different reasons -- lack of foreign credit lines for our exports, after the crisis, being perhaps the most important. These credit lines to Brazilian banks and companies are only now being restored.

- The flexible exchange rate regime also permitted a shift in the monetary policy towards domestic goals (inflation targeting policy) as well as a gradual reduction in the real interest rates
- Brazil returned to the bond market last April, (which is still one of the fastest growing source of external cash for emerging economies) with a \$ 2 billion issue of global bonds that has proven worldwide the credibility of the ongoing reforms in Brazil -- which now seems to have been the financial meltdown that wasn't.

The situation now

- In spite of some pressure generated by the recent devaluation of the Real vis-a-vis the US dollar, inflation remains under control, considerably lower than earlier forecasts indicated and already on a clear declining trend
- The inflation rate targets Brazil has set in the Memorandum of Economic Policy signed with the IMF (17% for the current year) may yet prove too conservative. One might even venture to predict a one-digit figure for 1999
- After reaching a record low of more than R\$ 2.20 per US dollar, the Brazilian currency has been steadily recovering and is now moving closer

to what most analysts consider a point of equilibrium (somewhat between R\$ 1.70 and R\$ 1.60)

- Even if the country seems to be in the right track – and we will remain on it – I can assure you that there is no danger of any kind of misplaced complacency within the government and we are well aware of the need to remain vigilant and to keep up with the pace of reforms

The future

- The financial turmoil which we lived in the recent past requires global solutions from developed and developing countries. Financial and trade issues should be addressed.

Financial issues

- The recent crises have shown that there is a clear need to reform the international financial institutions, so as to strengthen its surveillance mechanisms to prevent future crisis and its negative spreading effects.
- To offset sudden reduction of private capital flows and preserve the liquidity of the financial international system the international community should provide these institutions with contingent credit lines so as to make them capable to act as «lenders of last resort».
- Brazil strongly supports initiatives such as the Group of 22, which include the emerging countries in the global discussions of economic and financial matters according to the philosophy «you have to participate to implement».

- The OECD could play an important role as one of the major fora for cooperation and coordination between national authorities of members and non-member countries of the Organization, international regulatory bodies and the international financial institutions with a view to guaranteeing stability in the international financial markets.
- In line with this, this Organization could prepare policy-oriented papers regarding the following subjects: a) how to implement stronger supervisory system to prevent highly leveraged financial institutions from breaking down; b) how to promote more transparency in offshore financial centers c) how to deal with volatility and short term capital flows particularly in the case of new markets.
- A discussion of these issues among officials of OECD member-countries and emerging markets would certainly be useful to a better understanding and the prevention of financial crises in the future.

Trade

- It would also be very useful to discuss the occasional incoherence between trade and financial policies in OECD member countries. This is certainly one of the most important issues for non-Member countries, which often have very liberal financial and trade policies, in contrast with some of the member countries of this organization, where free financial policies are not matched by free trade policies.
- The case of protectionist trade policies on agricultural products is perhaps the most striking, but certainly not the only example of this incoherence.

- Another example is the widespread application of anti-dumping duties on key products exported by countries hit by the financial crisis -- such as duties applied on steel products.
- At least in part, this incoherence is a result of the Uruguay Round negotiations, in which developing countries agreed to much deeper commitments, in terms of market access, than the developed ones. As much as it was important, in those negotiations, to agree on the first international rules for trade in agriculture, it will be very important now, in the future negotiations, to improve these rules.
- Improvement of rules on agriculture means, of course, trying to address the incoherence that I mentioned and the imbalances which result from it. Agriculture and textiles, for example, are sectors in which many of the emerging economies are much more competitive than most OECD members.
- The same is valid for other sectors such as steel, tropical fruit juices and footwear -- products which are often subject to a variety of barriers such as anti-dumping, sanitary rules, etc.
- Of course, we all recognize the need for remedies against unfair trade practices and for the protection of health, etc. But very often these measures are applied with clearly protectionist objectives.
- Two conclusions can be drawn from the above: (1) the first is that, in spite of the theoretical and practical proof of the benefits of free trade, protectionist trends are reappearing in many quarters -- and especially in developed countries; (2) the second is that the multilateral trading system

requires constant improvement -- so much more in view of the consequences of the financial turmoil.

- The launching, later this year, in Seattle, of a new round of trade negotiations within the context of the WTO will be a good occasion to address these issues.
- Brazil is committed to the improvement of the international trading system and to the a more stable international economic environment. In our part, the Brazilian Government is working hard to face the challenges of a world where economic and social conditions should be ever more balanced and fair.
- Thank you.