



'The Political Dimensions of the World Economic Crisis: A Latin American Perspective'

Santiago de Chile, July 13, 2009

FINAL DECLARATION

We, Members of Club de Madrid, met at the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago de Chile to discuss the political dimensions of the world economic crisis from a Latin American perspective, agreed on the following issues:

1. The international crisis has strongly affected Latin America. We are particularly concerned with the social and the likely political consequences arising from this crisis.
2. The crisis threatens to severely undermine six consecutive years of growth, improvements in human development and political stability, which many countries in the region have attained with great sacrifice. The resulting loss of confidence in the governments' capacity to regain economic growth with equity could result in more polarized electoral processes which could in turn weaken democracy and contribute to the re-emergence of authoritarian tendencies.
3. The crisis brings new political challenges to democratic leadership in the region. If adequate measures are not adopted, it could endanger the political and social progress achieved during the last decades, generating conditions conducive to violent social outbreaks and the exacerbation of the injustice which millions of people in the region still face.
4. Overcoming the crisis will be more difficult as result of the growth and intensification of drug consumption and drug trafficking and organized crime in the region. These phenomena respect no frontiers and challenge both the quality of democracy and the rule of law, as well as intergovernmental cooperation in security matters.
5. The origins of the crisis have made manifest the dangers of market fundamentalism. We underscore the need for a strong and active State, fiscally responsible, capable of protecting its citizens and of promoting prosperous economies and public policies that guarantee social cohesion. The region needs more active and higher quality States without ignoring the value of the market.
6. The adoption of anti-cyclical macroeconomic policies is crucial. We celebrate the reduction of interest rates by the central banks of the region, the fiscal packages adopted by the governments, and the renewed focus on intra-regional trade.

7. Latin America has the best network of regional financial institutions – IADB, ADC, CABEL, LARF and the Agreement on Payments and Reciprocal Credits of LAIA¹. We draw attention to initiatives aimed at a better use and further deepening of these mechanisms to improve intra-regional payments, which exclude the need to create parallel institutions for this purpose.
8. We emphasize the need to improve international support for anti-cyclical policies and to reactivate credit to developing countries. In this regard, the effective use of multilateral development banks and their replenishment, if needed, as well as the simplification and modernization of conditionalities associated with multilateral lending will be essential. We welcome the increase in IMF resources, including the creation of a New Flexible Credit, the renewed and increased allocation of Special Drawing Rights and the reform of other IMF programs.
9. We call for the improved voice and participation of developing countries in multilateral financial institutions.
10. We highlight measures aimed at combating the effects of the crisis on the poor and most vulnerable. Experience indicates that recovering social indicators is twice as costly as regaining economic performance. It is therefore necessary to develop more ambitious social protection systems, based on the principles of universality and solidarity, including measures to maintain and create new jobs.
11. The contraction of international trade has resulted in a 26% decrease in Latin American exports during the first quarter of 2009. We condemn the reappearance of protectionism in its various forms. We urge the rapid and equitable conclusion of the Doha Round and call attention to the need to deepen our own processes of regional trade and economic integration, overcoming the political tensions that have weakened them in recent years and taking into account that in crisis only multilateral responses can be efficient.
12. The presence of three Latin American countries in the G20 provides us with a unique opportunity to influence the design of the new institutional architecture which surely must result from the crisis. Convergence of views will be imperative and, in that sense, we highlight the need to present a coordinated regional agenda before the G20 meeting in Pittsburgh in September. This consensus must include issues repeatedly raised by developing countries, such as: the reforming the reserve system; correcting global payments imbalances; regulating capital flows; creating an adequate institutional mechanism to resolve the problems of excessive over-indebtedness; and a greater representation of developing countries in international financial institutions.

¹ IADB: Inter-American Development Bank
ADC: Andean Development Corporation
CABEL: Central American Bank for Economic Integration
LARF: Latin American Reserve Fund
LAIA: Latin American Integration Association