

An Interview with Óscar Arias Sánchez:

Former Peace President Targets Education and Growth

As a former Costa Rican President (1986 to 1990) and winner of a Nobel Peace Prize, Óscar Arias Sánchez needs no introduction. The distinguished statesman and scholar graciously agreed to an interview with *Business Costa Rica* in his Rohrmoser home last month. Speaking inside his book-laden study, Arias shared his views on trade, economics and the important issues of our time.

Known as the “Peace President” for his critical involvement in the Central American Peace Plan that led to his international recognition with the Nobel Peace Prize in 1987, he now wants to focus on education and business as a means of fostering growth. If elected, Arias anticipates staying more in-country this time to pursue his administration’s objectives, without abandoning Costa Rica’s status as a “small international moral power.” Throughout his career, Arias has been a strong advocate of disarmament, especially among developing nations.

BCR: Why are you such a strong supporter of the Central American Free Trade Agreement (CAFTA) with the United States?

Arias: A free trade agreement between the Central American countries and the United States is the best opportunity we have to achieve a more accelerated level of economic growth. Achieving levels of growth above 6% annually in a sustainable manner would allow us to reduce unemployment and increase our tax base to collect more taxes. Then we could begin to construct the infrastructure we have not built over the years because of the generally low tax rates of the Latin American countries, and improve the real salary of our workers. Finally, CAFTA could convert Costa Rica into the most developed country in Latin America.

As I have said, this is an opportunity — it’s not a sure thing. It would be very sad if CAFTA did not come to fruition. A country that is small and produces what it doesn’t consume, and consumes what it doesn’t produce, has to base its development on exports. To have access to a U.S. market of 290 million people with almost \$40,000 per capita income is a unique opportunity. If we don’t do it, it’s going to be very difficult to increase national investment, not only investment of Costa Ricans, but also for-

eign direct investment.

BCR: So you see CAFTA as a useful instrument for the country.

Arias: Very useful!

BCR: Why are you in favor of eliminating all Costa Rican monopolies?

Arias: It’s difficult to find a human being that defends monopolies, either public or private. They are very rare species — like the dinosaurs in the process of extinction. But there still are some. It’s unnecessary to talk about the benefits of competition: I think we all have that very clear. Competition always obliges the producer to improve service, improve product quality, and the tendency is to reduce prices. In the case of the two monopolies I imagine you have in mind — telecommunications and insurance — the fundamental reasons are as follows.

Public sector investment in Costa Rica is small due to the limitations of the national budget. Most government outlays go to cover ongoing expenses — pensions, salaries, debt and the like. There is very little left over to invest in [public works projects].

Some investments can only be made

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by the state. I would like to see more libraries. I say libraries because libraries are something the private sector is not going to build. I'd like to see more elementary schools, high schools and gymnasiums, particularly in cities, to draw our youth away from the lure of drugs. I'd like to see more rural roads, more highways, more public housing projects, particularly for those of lower incomes. In the area of health, I'd like to see more hospitals, more clinics. There are all sorts of investments that need to be made, and some of these only the government will do. A private company is not going to build a public highway in a remote rural area.

In the area of telephony, on the other hand, and cell phones in particular, investment can be made by the public sector as well as the private sector, whether foreign or national. This is true for insurance as well.

If we want to increase investment to allow for an accelerated rate of growth, one that will allow Costa Ricans to better their way of life, it is totally absurd that we prohibit or restrict private sector investment in these areas.

BCR: Do you think that economic integration with Central America and eventually the rest of the Americas is in the best interest of Costa Rica? If so, why?

Arias: Of course. This is nothing new for us. Since the beginning of the sixties we have been striving for integration. The Central American Common Market is a market among equals: [an organization] of a lot of poor countries with economies that are more or less similar. This is the first time we have the possibility of integrating ourselves with a superpower; in this case, the richest country in the world, the United States. For years there has been an ongoing effort to open markets South — South. This is the first time the effort is being made North — South. We have to take advantage of this opportunity. We can't squander it — future generations would never forgive us. What is needed is the leadership to convince Costa Ricans that this is something good for our country.



Presidential candidate
Óscar Arias Sánchez

We're talking about 500,000 jobs!

Agriculture is the most sensitive area. Sometimes people forget that we export \$1.5 billion worth of agricultural products while we import only \$300 million of [agricultural products]. Costa Rica is the second country in Latin America in terms of per capita agricultural exports. This was achieved in the last 20 years under the Caribbean Basin Initiative. As we all know, this is a unilateral concession the US government gave us, one that we could eventually lose. A bilateral treaty, with rights and obligations binding on both parties, is of a more permanent nature, and therefore extremely important.

BCR: What are the implications of the fiscal tax reform being discussed right now in the Costa Rican Congress?

Arias: I don't know any country in the world that has developed without having significant tax revenues. In this area, the Latin American countries hold a very poor record, since the tax burden in our countries averages approximately 12 to 13% of GDP, one of the lowest in the world. Almost all government receipts are needed to pay current expenses.

Let's take education as an example. No country is going to be able to grow its economy if it can't improve the level of education of its people. The average length of schooling in Latin America is six years. In Costa Rica it's much higher, and that's what differentiates us from many of our neighbors.

When Felipe Gonzalez came to power in [Spain] in 1982, the tax burden was 22% of GDP. He was in government 14 years, until 1996. In those 14 years, the tax burden rose from 22% to 36% of GDP. It rose 14 points, or one per cent annually. It was also during this same period of time that Spain joined the European Union. As we all know, the richer countries of Europe stood behind the poorer countries, offering them a great deal of cooperation and aid. This is not going to happen in this case [CAFTA]. Washington has a different set of budget priorities; defense spending, for instance... instead of helping its neighbors diminish poverty and accelerate their economies. As I have made clear on many occasions, it is in the best interests of the United States to have more prosperous neighbors. If the day after tomorrow the US decided to oppose CAFTA, it will have to make a choice between the Central Americans exporting their workers or exporting their goods to the United States.

Here we are fighting for fiscal reforms that will earn us 2 points, or 2.5 points, of GDP. If these reforms are passed, who knows how long we will have to wait to increase taxes again. In contrast, Felipe Gonzalez increased the tax burden one per cent per year, and that transformed Spain from a developing country into an advanced and prosperous one.

No country can prosper without having adequate resources. Above all, having the resources for education. Today Costa Rica spends roughly 6% of its GDP on education. I would like to see that figure rise to 8% in a few years.

BCR: Do you believe that education reform is necessary in Costa Rica? How do you think that could be accomplished?

Arias: Yes. There'll be plenty of opportunity for me to speak on this subject during the course of the campaign. You can't improve education with sociology, you need to have more funding. How can you start classes when there are no desks for children to sit at? Generally speaking, in Latin American towns, you hear a lot of complaints about the lack of good services. People clamor for the same quality of services such as those found in Sweden, Norway, France or Germany. Yet how can we expect those types of services paying taxes like a Guatemalan or a Nicaraguan? We've postponed resolving our problems for many years.

There's another important aspect [of the fiscal debt]: the burgeoning public internal debt has prevented interest rates from dropping. Here we have a state that is the primary obstacle to development; each time the government issues bonds to finance its debt, the pressure on interest rates is upwards, making private sector credit more expensive.

Imagine what it would be like for a newly married couple recently graduated from university to have access to 14% home mortgage rates to build a home, and not 22% as they have today? Or for the businessman to have access to interest rates at substantially lower rates? Certainly that would be a great stimulus to our economy. Today, due to the fiscal deficit, the government has become the greatest obstacle to growth.

BCR: What do you think can be done to improve the local business environment?

Arias: If you want a succinct answer the reply would be: "Vote for Oscar Arias!"

BCR: How do you read the present global economic situation?

Arias: The downfall of communism has had very profound implications for the world, primarily because the affluent western world, and principally the US, by not having an enemy, lost interest in the developing world — the countries of sub-Saharan Africa, Asia

and Latin America. A good example is Central America. Our countries received a great deal of aid from Washington during the eighties and the beginning of the nineties. That [aid] has ended or is ending in some countries.

There are three locomotives to world growth: the US, the European Union and Japan. Japan has been in a recession for many years, while the EU has experienced very low rates of growth. Any external aid the EU gives is channeled primarily to Africa and Asia. The US earmarks less than 0.1% of its GDP in aid to developing countries — this is one tenth the amount as a percentage of GDP that is spent by countries such as Norway, for example.

There are many ways in which first-world countries can help developing countries: economic aid and debt forgiveness are two examples. But there has been very little debt pardoning for very few countries, primarily Africa. The criterion for debt forgiveness is based on a country's level of poverty. In this case, Costa Rica would never

qualify. I've always insisted that other criteria can and should be used: for example, how much a country spends on health and education as compared to defense spending. Under this scenario, Costa Rica would be very qualified. Because it doesn't make sense that a very poor country that doesn't devote any of its resources to the health and education of its people, but does to the build up its military, be granted debt forgiveness just because it is poor.

And foreign direct investment (FDI) does not necessarily go to the poorest countries. The fifty poorest countries in the world receive only 1% of total FDI. That leaves commercial trade as the main instrument of growth in the world as it is today. And, as we all know, rich countries continue being very protectionist.

I've just had the director of the World Trade Organization in my house. It's very hard to be optimistic [about world trade] at the beginning of the 21st cen-

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The Arias Foundation for Peace and Human Progress

Dr. Óscar Arias established the Foundation in 1988 to further his vision of democracy and nonviolence after being awarded the Nobel Peace Prize in 1987 for his efforts related to the Central American Peace Plan. The mission of the Foundation is to promote just and peaceful societies in Central America and other regions.

The Foundation's continuing work is divided among three active and expanding programs:

The Center for Human Progress

- Gender and Development • Gender and Human Rights

The Center for Peace and Reconciliation

- First Central American Forum on the Proliferation of Light Weapons • Central American Dialogue • International Code of Conduct • Demilitarization and Permanent Security • Conflict Prevention • Democratic Governance and Development

The Center for Organized Participation

- Law and Civil Society • Communication and Coordination • New Mechanisms for Resource Mobilization • NGO's as advocates for Social Change

The bilingual (Spanish/English) Arias Foundation website at www.arias.or.cr provides a variety of information about Foundation activities, including: publications, projects, links to relevant NGO's, the museum for peace, background info about the founder, etc.

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tury. Nonetheless, I think the pressure of the developing world on these richer countries will force them to start opening their economies and [lowering barriers to trade], primarily in the area of agriculture.

BCR: What do you see as the critical social issues of our time domestically and internationally?

Arias: I think poverty and inequality. There are 1.3 billion people in the world that earn one dollar a day. There are 900 million people who don't know how to read or write. There are 1.5 billion people who don't have access to potable water. There are 30,000 children who die every day of diseases that are preventable.

The 21st century is going to be the century of conflicts over illegal immigration. As I say in international forums whenever I have the opportunity to speak, 'poverty needs no passport to travel.' The United States achieves nothing by erecting a 9 foot-high wall in California to prevent illegal aliens from crossing its borders, because they're going to get through anyway. It would be the same if we were to build a wall along our frontier with Nicaragua. As long as incomes in Costa Rica are six times higher than those in Nicaragua, there will be no way to stop them at the frontier.

One of the best ways to perpetuate poverty in the poor countries is by selling them arms. I have been working on that since I left the presidency in 1990: trying to convince the rich world that what the poor children of Africa, Asia and Latin America need is not more arms, tanks, missiles and sophisticated planes, but more schools, clinics and nutrition centers. That is why President Carter and I both insisted — unsuccessfully — that President Clinton not lift the ban on high tech weapon sales from the US to Latin America. In 1997 the ban was lifted and another arms race began in the Southern Cone, starting with Chile purchasing F-16 fighter planes.

Speaking about inequality. In order to understand how inequality increases

over time, all you need to know is how to multiply. If the \$5,000 per capita income of a Tico increases 2% annually, that signifies \$100 more per year. If the \$700 per capita income of a Nicaraguan were to increase 2% annually, that would represent a \$14 increase per year. To eliminate this gap we need to have much higher levels of growth.

High population growth rates, however, can wipe out the benefits of increased economic growth. In some countries of Latin America, due to lack of education and many other factors, the population duplicates itself every forty years. Although this may sound apocalyptic, it will be very difficult to narrow the gap between the rich and the poor, between the North and the South, if we are incapable of reigning in over population.

BCR: Can you define for our readers the concept of "human progress" that is prominent in the Arias Foundation?

Arias: The United Nations (UN) elaborated the human development index during the decade of the nineties, introducing a series of variables to measure human progress that had not been taken into consideration before. These included health, education, military spending, and so on. Before, the only standard of measurement used was per capita income. You can find many countries today with very high levels of per capita income (Qatar, for example) that have very little success in areas of education or health. Costa Rica, on the other hand, has very good indices in terms of health and education, but its per capita income is low compared to Qatar's.

Chris Dodd, an American Senator, told me after I left the Presidency: "Listen, Oscar, foreign aid for poor countries is dead."

I realized then that we had to help ourselves, and I predicated my next years' work on [doing things that would help], such as the Arms Trade Treaty.

Money spent on arms and soldiers is the most stupid expenditure a nation can make. If the US wants to spend \$400 billion on defense that is a luxury

it can afford. But countries like India, which spend \$17 billion on defense while 400 million of its people are illiterate, and that prefers to build an atomic bomb rather than hospitals, well, those are totally erroneous decisions.

Costa Rica has the moral authority to tell other nations, after having abolished its army in 1948, to do likewise. That's why I managed to get the army abolished in Panama in 1994, and in Haiti in 1995. What's happening in Haiti right now has me extremely concerned: because whatever the faults of Jean Bertrand Aristide, those who have returned to power now are the ex-military, and I am afraid they will try to restore the military, with approval of Washington.

BCR: Now that you have made your intentions clear to run for the presidency in 2006, what do you see as high priorities for Costa Rica?

Arias: I think that to govern is to educate. I will utilize this campaign to educate the Costa Rican public, to convince them that a free trade agreement with the United States is a good thing, that the elimination of state monopolies is a good thing. If twenty years ago I managed to convince Costa Ricans that peace was what was most important, today I have to convince them that education is what is most important. If twenty years ago I was known as the 'President of Peace,' tomorrow, if reelected, I would like to me known as the 'President of Education.' Things have changed.

Twenty years ago I needed to dedicate a lot of time to international issues, which forced me to travel a lot. I think that would be different today. However, I will not turn my back on international issues.

This small moral power which is Costa Rica should not hide in a closet, but rather speak up with a loud and clear voice about the injustices in the world. I will utilize all the possible forums I can to persuade foreign direct investment to come to Costa Rica, particularly in the area of high technology.

