

FINAL REPORT

**“Economy and Society” Working Group of
Forum for East Asia-Latin America Cooperation
(FEALAC)**

August 2003

Introduction

The 2nd “Economy and Society” Working Group (WG) meeting of Forum for East Asia-Latin America Cooperation (FEALAC) was held on March 17 and 18 in Tokyo for the purpose of preparing the final report that includes specific policy-oriented proposals. This report is to be presented at SOM 5 and, later, at the Foreign Ministerial Meeting of FEALAC. The discussions were moderated by the Co-Chairs of the Group, Dr. Akio Hosono representing Japan and Minister Jorge Puente, representing Peru.

The WG Meeting was comprised of five sessions, each of them followed by a general discussion:

- Session 1. Institution and Governance
- Session 2. Socio-Economic Development and Poverty Reduction
- Session 3. Trade and Investment
- Session 4. Small and Medium-sized Enterprises and Entrepreneurship
- Session 5. Information Technology
- Final Comments by the Co-Chairs

In each session, constructive discussion was held based on the proposals prepared by the Japanese Research Group (see Annex). Those proposals reflect what was discussed at the first meeting of “Economy and Society” working group (in March 2002) and the relevant information provided by each member country in between the two meetings. Participants of the meeting paid special attention to what can be the “value-added” of the FEALAC process in comparison with other international fora or organizations.

Session 1: Institution and Governance¹

At the beginning of the first session, the Japanese Research Group pointed out that, in order to realize stable and sustainable development, both East Asian and Latin American countries need to avoid excessive market volatility and worsening of social gaps on the one hand and unintelligent and excessive public intervention in the economic affairs on the other. They face the common challenge of improving corporate governance, public administration, financial regulations, judicial system, social safety-net and labor-training mechanisms. Each country is required to explore the most appropriate institutional

¹ Summary prepared by Dr. Keiichi Tsunekawa, Professor of the University of Tokyo and the moderator of the Session 1.

arrangements based on different cultural and institutional legacies. However, the exchange of information and experiences among FEALAC countries, to which not only academic people but also corporate managers, public officials and judges are to participate, will certainly help each country look for the best institutional frameworks.

For this purpose, three concrete proposals were presented:

- (1) Establish a track II network of research institutes of the FEALAC countries.
- (2) Expand symposia or seminars organized by individual governments (such as Japan's young Leaders Symposium) so that business people, administrators, judges and NGO people from the FEALAC countries can have broader chances of direct contact.
- (3) Make available the existing bi-national or regional training programs (for public administrators and private-sector managers/technicians) to any other FEALAC member.

Some delegates argued that the best strategy of the FEALAC members is to first obtain information about essential elements of successful schemes and then adapt them to social, cultural and historical peculiarities of individual countries. Some concern was expressed about the financing of the proposed track II meetings. A mention was made to the possibility of using a common website to accumulate and exchange information and to compile data base.

Other participants suggested the possibilities of coordinating bilateral programs, launching and interconnecting national homepages of FEALAC, arranging technical assistance programs to train judicial personnel, and involving media people to disseminate information to the public.

Session 2: Socio-Economic Development and Poverty Reduction²

In Session 2, an agreement was reached on the following three themes after a vivid discussion.

Reestablishing the vision of development

Importance of "Knowledge Economy"³ and "Inclusive Development"⁴ was accepted and

² Summary prepared by Dr. Toru Yanagihara, Professor of Takushoku University, moderator of the Session 2.

³ A conception broader and deeper than IT.

shared by all the participants in a common endeavor to reestablish development agenda as distinct from stabilization and reform agenda based on the Washington Consensus. It was also agreed that Such vision of development is essential from socioeconomic development perspectives and also as a reflection of a political imperative.

Effective approaches to poverty reduction

The Report's focus on poverty reduction was unanimously endorsed. As it was recognized in SOM IV held in Bogota, the challenge of "overcoming poverty" should be one of the highest priorities of the FEALAC process. Among references to concrete experiences and programs, special mention was made to the cases of China, Malaysia and Vietnam for their national experiences in rapid poverty reduction, and to the case of Cambodia where the National Poverty Reduction Strategy (NPRS) 2003-2005 is now being implemented. Also, specific experiences in local and community development programs for social protection were presented. Suggestions were made, and broadly supported by the Group, with regard to collaborations in the fight against poverty, including the FEALAC Governments' political commitment to the Millennium Development Goals, mutual support and assistance in pursuit of national strategies for poverty reduction, and human rights-based approach to poverty matters, as possible means of increasing FEALAC' value-addedness.

Regarding more specific activities that could substantiate Track II Process, the Group welcomed a Chilean initiative to share its experiences of "Chile Solidario", a social protection system targeted on extreme poverty which incorporates social assistance programs to tackle poverty in an integral manner. As a next step, it will be highly useful if Chile, possibly in collaboration with other countries willing to join this initiative, organizes a seminar or an exchange program aiming at promoting mutual learning on the important task of social protection.

In reference to the above, and also more generally, the need to be aware of and to pay adequate attention to diverse conditions and contexts in different countries was recognized. It will be of great value to all involved to set up a taskforce study group that collectively identifies key parameters of institutional innovation and adaptation through learning from successful experiences and applying the lessons across the borders.

Consolidation of macroeconomic stability

⁴ Inclusive, in the sense that the whole population participate in the development process and share its benefits.

The subject of macroeconomic stability, is one of general concerns for the FEALAC members, even though some Latin American countries suffer from heavy external debts and their consequences. The need to be always vigilant as to the vulnerability of the member nations' economies to external shocks was recognized, especially in relation to short-term capital flows, and suggestions were made so that effective common approaches be explored to monitor and detect signs of emergent danger and prevent serious disruptions to macroeconomic stability.

Session 3: Trade and Investment⁵

Analysis of business opportunity

A profound study of business opportunities for Latin American enterprises in East Asia and their East Asian counterparts in Latin America is indispensable to identify concrete lines of action in order to strengthen mutual economic relations, particularly, trade and investment between both regions. The study should include the analysis of the factors that impede these enterprises to respond more actively to business opportunities. It should also propose concrete measures that facilitate them to take full advantage of such opportunities.

One way to realize this study is to focus on the marketing possibilities of main export items and on concrete foreign direct investment projects. Another focus can be on elaborating concrete proposals for the purpose of developing industries and promoting trade and investment between the two regions. During the discussion, Japan showed its readiness to assume responsibility of this project utilizing its knowledge and information accumulated as the important economic partner of both regions.

A new approach to strengthen mutual relationship

A new approach to strengthen mutual relationship should be tried in parallel with conventional approaches. Innovative and new modalities of strategic partnership (i.e., a joint venture that gives impetus and value-addedness to the trade between the two regions, emphasis on trade of manufactured goods, and a new institution like East-Asia Latin America Business Forum) should be considered seriously. The new type of partnership

⁵ Summary prepared by Dr. Akio Hosono, Ambassador of Japan to El Salvador, moderator of the Session 3.

just mentioned, as well as the promotion of intra-sectorial trade, could constitute a firmer base of mutual relations in the future.

East-Asia Latin America Business Forum could be promoted as a Track II Network of FEALAC. It may be convenient if the activities of this forum are coordinated with existing organizations such as PECC and PBEC. At the same time, the exchange of information through FEALAC websites can be started immediately. These websites can contain detailed information on business environment and chances on both sides of the Pacific.

In this regard, the possibility of assistance from and cooperation with international organizations such as IDB, ADB, ECLAC and ESCAP was suggested.

Moreover, concluding further bilateral investment guarantee agreements among FEALAC members could be an effective means to promote investment between East Asia and Latin America. There is also a need to consider ways to expand trade and investment between the two regions through the adoption of measures similar to the Trade Facilitation Action Plan (TFAP) and Investment Promotion Action Plan (IPAP) of ASEM.

Analysis of advantages and challenges of FTAA and other FTAs

In the conjunctural situation in which the FTAA process is progressing irreversibly, it is timely to analyse merits and demerits of FTAA and other FTAs for mutual economic relations. It is necessary to make clear competitive edges of FEALAC countries in the process of globalization (especially in the context of global strategies of transnational enterprises), regional integration and the evolution of FTAs. It may also be advisable to investigate the possibly adverse impacts of neoliberalism in the small economies of Latin America and the Caribbean and its implication for further regional integration.

Session 4: Small and Medium Enterprises and Entrepreneurship⁶

Cooperation for promotion of micro, small and medium enterprises (SMEs) in Latin America and East Asia

⁶ Summary prepared by Dr. Akio Hosono, Ambassador of Japan to El Salvador, moderator of the Session 4.

The role of SMEs and entrepreneurship was considered one of the highest priority areas for the development of concrete bi-regional projects of FEALAC. At the forefront of industrial restructuring, they are accomplishing a crucial role for social and economic development and forming an essential part of economy and society. In these regards, the proposals presented from Japan and Peru were widely supported by participants in this session. A special attention was paid to the project that Peru had presented at the SOM IV which emphasizes collaborative activities of FEALAC countries to promote Micro, Small and Medium Enterprises (MSMEs).

The Peruvian delegate stated that to elaborate this proposal, it took into account what FEALAC members discussed in the first Working Group meeting. Regarding this initiative Peru is prepared to be the coordinator of the activities suggested by its proposal. Although it is expected that the project could be developed on the basis of the infrastructure that each country member possesses, Peru noted the importance that the project could, at a certain level, receive collaborations from international organizations such as UNIDO, IDB, the World Bank's Global Distance Learning Network, or others, for these activities. In relation to the Peruvian proposal, Ecuador suggested the possibility of hosting a symposium, under coordination with the Peruvian project, on competitiveness of small and medium enterprises with the collaboration of the Federation of Chambers of Small and Medium Enterprises in Latin America.

Improvement of SMEs' capability in the international economy

These enterprises might be the victims of the global competition. This global business exclusion (or global business divide) against SMEs and micro-enterprises could be avoided if effective measures to strengthen their competitiveness are implemented. Both in the report of the Japanese Research Group and in the discussion, it was emphasized that advantages can increasingly stem from the factors such as world-wide supply chains, industrial agglomerations, an special industrial locations in the current globalization process.

Encouragement of economic and technical cooperation in areas of SMEs development and the promotion of entrepreneurship

Economic and technical cooperation for development of SMEs is especially important given the dramatic difference of productivity as well as technological capacity between large enterprises on one hand and small and medium and micro-enterprises on the other. The capacity enhancement of SMEs through the strengthening of entrepreneurship and human resources are especially important. The institutionalisation of the support

programs is imminently needed.

Session 5: Information Technology⁷

In the last session, Information Technology (IT) was discussed. The last twenty years can be characterized as the beginning of the era of globalization and the IT revolution. Liberalization, deregulation, privatization of state-owned enterprises and ‘small government’ driven by market mechanisms depict the basic philosophy of the era. This in turn has promoted the globalization of business activities. Aided by rapid developments in computer and telecommunications technologies, the process of globalization has been highly speedy and its direction irreversible. However, negative aspects in the globalization and Internet era are also arising such as the ‘digital divide’ and computer crimes.

Under these circumstances, the Japanese Research Group made three major proposals:

- (1) Set up a FEALAC joint-study team dealing with IT-related issues of selected member countries.
- (2) Construct a FEALAC website such as ‘e-FEALAC’ which includes databank of the member countries.
- (3) Establish IT-related standards and legal frameworks or enforcement systems against computer crimes and privacy violations.

The first proposal was widely accepted by the WG members. All agreed that the study should cover priority issues discussed in the meeting, such as micro, small and medium enterprises, poverty in terms of the ‘digital divide,’ and trade and investment. The Japanese Ministry of Foreign Affairs announced its intention to seek financial assistance from the UNDP Trust Fund for Information and Communication Technology for Development.

Most of the delegates also supported the second proposal. The establishment of ‘e-FEALAC’ should be comprehensive in the sense that the website should be linked to other websites such as governments, chambers of commerce and universities. It was recommended to examine existing or planned websites such as APEC Knowledge Clearing House (KCH), e-ASEAN, e-Europe and ‘Information Highway’ under the Puebla Panama Plan (PPP) as models for e-FEALAC. However, to avoid duplications

⁷ Summary prepared by Mr. Mitsuhiro Kagami, Executive Vice-President, JETRO, moderator of the Session 5.

with similar regional and international websites, e-FEALAC needs a “cooperative council” composed of experts, scholars and businesspeople from the member countries to support and supply website’s contents.

As for the third proposal of Japan’s, many representatives suggested that it should be treated in the international arena rather than in the FEALAC framework.

Proposals of the Working Group

Based on the presentations and discussion above, the “Economy and Society Working Group” adopted the following items as concrete proposals of FEALAC-wide cooperation.

1. The FEALAC members make every effort to establish a track II network of research institutes and think-tanks so that people from governments, private sectors, media, judicial institutions, academia and civil-society organizations from FEALAC member countries can have opportunities of frequent and sustained communication and interchange.

2. To economize the cost of direct interactions, the FEALAC members explore the possibility of taking advantage of IT facilities such as teleconference and websites. As for the latter, each FEALAC government is strongly recommended to launch a national FEALAC website and link it with other FEALAC websites. In the future, the FEALAC members should make all efforts to establish a single official website of FEALAC.

3. As for the subjects of dialogue and interchange, the Working Group considers that all the proposals made by the Japanese Research Group provide a good base for future discussion and cooperation. However, it considers the following subjects as priority issue areas:

- (1) Integrated poverty reduction programs such as “Chile Solidario.”
- (2) New and innovative modalities of strategic partnership between Asian and Latin American firms.
- (3) Promotion of micro, small and medium enterprises, specially projects such as the Peruvian initiative.
- (4) A FEALAC-wide study of the degree of the IT development and digital divide.

4. Individual FEALAC governments explore the possibility of organizing seminars and symposia as well as technical training programs to which people from FEALAC member

countries are invited.

5. The possibility of collaboration with international organizations be explored. Regional financial organizations such as IDB and ADB can support the FEALAC process as they have already played important roles in economic and social development of both regions. Their recent initiative to forge a business forum covering both Latin America and East Asia is especially useful for FEALAC activities. Regional commissions of the United Nations such as ESCAP and ECLAC can also play an important role as research institutes and data collectors for the FEALAC process.

Final Remarks

As the globalization is accelerated, both East Asian and Latin American countries face common socio-economic challenges. They can learn a lot from each other's experiences. At the same time, potential benefits expected from the expansion of economic ties between the two regions have not yet been fully recognized and exploited. In this context, closer contacts and communication through FEALAC will be potentially of great use for both regions.

To make the FEALAC process feasible and meaningful, this final report shows the priorities and the guidelines to be followed by the FEALAC members. The Co-Chairs of this Working Group, Japan and Peru, should be very pleased if this report serves as a basic document to be considered by the forthcoming meeting of SOM and the Foreign Ministerial Meeting and eventually proves to be useful for successful development of the FEALAC process.