Study for the 4th Meeting of the Economic and Society Working Group of Forum for East Asia-Latin America Cooperation (FEALAC) (Component I)

How to increase SMEs' participation in trade between Asia and Latin America: The role of ICT

Prepared by the United Nations, Economic Commission for Latin America and the Caribbean (ECLAC)

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I. Introduction

Exports by small and medium-sized enterprises (SMEs) are constrained by a combination of internal and external factors. The former includes lack of capital, inadequate information, and insufficient management skills, while the latter, trade restrictions and bureaucratic procedures. Marketing and distribution problems, high transportation costs and communication problems might be also included as external factors. SMEs face serious problems in identifying and getting information on customers, including their credit-worthiness, finding suitable representation in the target market and establishing relationships of trust, arranging transport means to the market, and overcoming communication problems that include different languages. These constraints could partly be alleviated by better access and more efficient use of information and communication technologies (ICTs) by governments and SMEs.

Some Asian countries, particularly Hong Kong Special Administrative Region, Japan, the Republic of Korea and Singapore have become international references for ICT and other technologies. At the same time, the Asian developing countries are incorporated into intra-regional and global supply chains of IT products. These countries also have a large army of well-trained engineers and also have acquired experience in manufacturing. These elements facilitate the adoption of IT in non-IT sectors as well. In contrast to the development of IT in Asia, Latin American countries do not present a high level of IT penetration.

Despite substantial increases in recent years, trade between Asia and Latin America remains low and is still characterized as inter-industrial rather than intra-industrial: Latin America exports commodities and their processed products and imports mainly manufactures goods from Asia. In addition, SMEs participate little in this bi-regional trade. These firms face enormous barriers to trade in terms of access to market information and trade logistics related capabilities. In this regard, ITs are thought to enable SMEs to overcome these barriers. Although there is an important rivalry between both regions in developed third market countries, it is possible to create a more complementary relation based on the difference in export-product baskets and seasonality between the North and South hemispheres.

Considering the position of ICT as an enabler of growth through efficiency gains and increased productivity, in particular for SMEs, FEALAC member countries consider the development of SME exporters through the increased use of IT as one of its priorities. Nonetheless, to analyze the current situation and to propose future policies, it is important to find adequate sources of information on SMEs and on policy implementation toward this goal. As this information is not easily available, it is pertinent to, and extremely valuable for, FEALAC to establish points of contact with the affected parties (i.e. SMEs) in order to understand their reactions to proposed policies or to previously implemented strategies. In this sense, FEALAC activities undertaken in the framework of the Economy and Society Working Group (WG) fulfill these imminent needs and are directed towards the establishment of a comprehensive vision of the role of ICT in the integration of SMEs in interregional supply chains.

The foregoing assessment of the current situation between both regions indicates that there are fruitful areas of cooperation that have not been attended up to now. From the institutional side, although several Latin American countries belong to APEC (Chile, Peru and Mexico), the rest of Latin America relies primarily on the work of FEALAC to approach Asia. Therefore, this Forum plays a leading role in the institutionalized dialogue between both regions. Moreover, there is a strong need for SMEs to receive increasing returns from the globalization of the international economy and benefit from the widespread FTAs. In this sense, FEALAC could make use of its particular position of being a forum between

developing and developed countries and act as a platform for sharing issues and experiences, exploring the possibilities for cooperation and building upon the existing complementarities of both regions.

II. FEALAC Work on the issue of use of ICT by SMEs

The first ministerial meeting of the Forum for East Asia-Latin America Cooperation (FEALAC) was held in Santiago, Chile, on March 29 and 30, 2001 with the presence of representatives (Foreign Ministers and Heads of Delegations) from 30 countries of East Asia and Latin America. At present, 32 member countries compose the forum. The meeting was the beginning of dialogues and cooperation between both regions in different areas: political, cultural, social, economic and international issues of common interest.

During the meeting, the Ministers decided to establish three Working Groups, aimed at strengthening policy dialogue and cooperation in the following fields: political/cultural, economic/social and education/science and technology. The Ministers established the following broad terms of reference for the Working Groups:

1- Elaborate detailed frameworks for cooperation between the two regions in line with the rationale, purposes, objectives and principles of the Forum, as set out in the Framework Document in order to make recommendations on a few practical, Forum-wide projects;

2.- In so doing, as agreed during the earlier discussions on national projects, the Working Groups should, where appropriate, endeavor to coordinate and harmonize existing national projects and explore potential synergies between national projects and Forum-wide projects in order to identify national projects which could be harmonized with, or incorporated into, possible Forum-wide projects; and

3.- The Working Groups should also examine suggestions made by member states in order to prioritize them and avoid duplication with the existing work of other regional and international forums, groups and institutions.

A.   The Economy and Society Group

In relation to the "Economy and Society Group", Japan and Peru (later Argentina) agreed to co-chair the group. The objective of the Group is to search for the common challenges in the socio-economic fields that lie between the two regions, analyze the current situations and draw up concrete proposals concerning the possible measures for the strengthening of the relationship between both regions.

1. The First "Economy and Society" Working Group (WG) meeting

The first meeting of the "Economy and Society" Working Group of the FEALAC was held on March 7 and 8, 2002 in Tokyo, Japan. Representatives from 29 countries attended the meeting. The objective of this meeting was to analyze the situation and problems that the two regions face in the socio-economic field, in order to present its report to Senior Official Meeting IV. This report established a general framework for recommendations and policies regarding Forum-wide projects for the longer term, and was put to consideration for the second meeting of the Working Group.

Discussions in the first meeting were centered on the following four areas: 1) Institutions and Governance; 2) Economic Development and Poverty Reduction; 3) Entrepreneurship and SMEs; and 4) IT Revolution in East Asia and Latin America.

Here, it is convenient to review the conclusions reached by the participants in relation to areas 3) and 4). According to the summary of one of the co-chairs, a key conclusion was that the situation of SMEs in Latin America differed from that in East Asia, because these enterprises in Latin America had a limited export capacity, which required the application of specific policies on financial support, technical assistance, training, export promotion, strengthening of ties with large businesses and formation of productive supply chains, all of which had been less successfully implemented in Latin America than in East Asia. Furthermore, it was recognized that SMEs were now required to be globally competitive in order to respond to new business opportunities. In so doing, they face the problems previously mentioned, in addition to those related to regulations and advancement of new technologies. Therefore, in the view of the participants, the dialogues on SME development experience were of great relevance in the current business environment of change and new opportunities.

With respect to Topic 3, "Information Technology Revolution in East Asia and Latin America", the importance of government initiatives on infrastructure, both hard and software, and of deregulation and education was stressed. The Group discussed many aspects related to the IT Revolution including those related to digital divide, application of IT to socio-economic development, e-government, civil society, poverty reduction and aspects related to the competitive participation in the global market. The possibilities for "catch-up" in the IT Revolution were also considered, including necessary resources to access open/free wares and induce a "digital jump".

2. The 2nd "Economy and Society" Working Group (WG) meeting

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, 2003 in Tokyo with the aim of preparing the final report that would include specific policy-oriented proposals. This WG Meeting was comprised of five sessions:

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; and

Session 5. Information Technology.

For the purposes of the present document, only the outcomes in Sessions 4 and 5 will be mentioned. Session 4 addressed the following issues: 1) Cooperation for promotion of micro, small and medium enterprises (SMEs) in Latin America and East Asia; 2) Improvement of SMEs' capability in the international economy; and 3) Encouragement of economic and technical cooperation in areas of SMEs development and the promotion of entrepreneurship.

Regarding the first issue (Cooperation for promotion of SMEs in Latin America and East Asia), in the view of the moderator of the session, 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, SMEs

are performing a crucial role in social and economic development and forming an essential part of the economy and the society.

In this regard, at the Senor Official Meeting (SOM) IV, Peru presented a project that would involve collaborative activities of FEALAC countries to promote Micro, Small and Medium Enterprises (MSMEs). The project received wide support of the participants. Regarding this initiative, Peru stated that it would be prepared to be the coordinator of the activities contemplated in its proposal, while Ecuador indicated its interest in hosting a symposium, in 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.

In relation to the second area, "Improvement of SMEs' capability in the international economy", both in the report of the Japanese Research Group and in the discussion, it was emphasized that advantages for the SMEs could increasingly stem from the factors such as their effective participation in world-wide supply chains, industrial agglomerations, and special industrial locations.

Finally, in relation to the third area of discussion, "Encouragement of economic and technical cooperation in areas of SMEs development and the promotion of entrepreneurship", capacity enhancement of SMEs through the strengthening of entrepreneurship and human resources was considered especially important. The participants agreed that institutionalization of the support program was urgently needed.

Session Five of the Meeting was dedicated to the discussion of Information Technology (IT). The Group considered the three major proposals presented by the Japanese Research Group, which took in consideration the new challenges and developments that were brought about by the globalization of business activities in the last twenty years. These proposals were related to: 1) creation of a FEALAC joint-study team to deal with IT-related issues in selected member countries; 2) construction of a FEALAC website such as "e-FEALAC", which would include a databank of the member countries; and 3) establishment of 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 SMEs, poverty and the 'digital divide,' and trade and investment. The second proposal was also supported by most of the delegates. They considered that the establishment of "e-FEALAC" should be wide-ranging; the website should be linked to other websites such as governments, chambers of commerce and universities. However, to prevent duplication with other planned websites, it was considered that a "cooperative council" composed of experts, scholars and business people from the member countries should be convened in order to support and supply website's contents. The third proposal was, however, considered by most participants to be more appropriately treated at the international level than in the FEALAC sphere.

3. The 3rd "Economy and Society" Working Group (WG) meeting of FEALAC

The 3rd "Economy and Society" Working Group (WG) meeting of FEALAC took place in Buenos Aires, November 23-25, 2004. During the meeting a consensus was reached that the WG should move on into a new phase to take concrete actions, building on the basis that had been established in the previous two WG meetings. The meeting was comprised of three main themes and five sessions, each devoting to a specific subject.

Item I referred to "Strengthening of business exchanges: possibility of creating a FEALAC Business Council or Forum". Item II was on "Promotion of development and

exchange between SMEs". This item included two sub-items: a) Export promotion, the exchange of opportunities; and b) Training as a tool to optimize the offer of SMEs. Item III was related to "Use of Information and communications technology (ICT) in the promotion of business exchange" and also had two sub-items: a) Design and installation in the Ministry of Foreign Affaires website of each country of a chosen number of official links with information provided by the members and; b) Promotion of the information and communication technology (ICT) in the private sector, particularly in developing countries, with a view to increasing trade relations and inter-company relationships between FEALAC member countries. The present document addresses the items II and III of the Meeting.

In relation to Item II, "Promotion of development and exchange between SMEs", it was argued that although SMEs and promotion agencies in East Asia developed the appropriate structure and enjoy an adequate environment for business, both regions have something to learn from each other. During the discussion of Subitem 1, about "Export promotion, The exchange of opportunities", it was recognized that SMEs comprise about 90% of all existing enterprises in both East Asia and Latin America and play a crucial role in driving the economic growth, as well as beíng an important source of employment.

During the meeting, two countries offered to host seminars, one by Peru on "Promotion and application of ICT for the SMEs competitiveness", and the other by Thailand, to be dedicated exclusively to the SMEs situation, opened to all FEALAC member countries. The delegates were of the opinion that many difficulties in the globalized economy prevent SMEs of both regions from establishing a growing trade relationship. Long distance, language barriers, cultural differences were still recognized as major bottlenecks. During the discussions, the activities of SMEs were considered as a key element for the economic and social development of each country, but they faced diverse challenges in the globalization process. After debates, a ten country commission was entrusted to draft a Proposal aimed at gathering different SMEs issues in one document, based on Manila's Plan of Action guidelines. This proposal on the SMEs has been called "Competitiveness, best practices and export promotion".

As a first step of cooperation in this field within the framework of the FEALAC, the convenience of identifying SMEs export promotion agencies or relevant institutions and their training programs on ICT in each of the member countries was stressed. In this respect, Japan and Argentina as coordinators of the WG were requested to: a) collect the focal-point contacts information, compile a directory and make it available to members in order to facilitate the exchanges of information; and b) agree, through consultations with FEALAC member countries, on a number of common criteria for contents and basic information about SMEs, trade promotion for SMEs, capabilities, resources, and other issues that could be used as the basis for an exchange of contents.

Focal Points Short Term Objectives:

It was agreed that the focal points would start work on a proposal agenda that should include the following objectives: 1) exchange information, in order to identify the Chambers of Commerce in each country and Trade Promotion offices, problems, obstacles, opportunities, challenges, and so forth; ii) contribute to the definition of the issues for the workshops in Peru and Thailand in 2005, and iii) provide contents and other necessary information for the said Workshops to the hosts and the participants.

Focal Points Long Term Objectives:

For all FEALAC country member involved, foster the creation of websites specialized in the promotion of the internationalization of SMEs, that would be linked to the national FEALAC websites and from there to the global FEALAC portal. Generate a relationship system on the basis of the advantages of ITCs;

Links between portals would make it easier to diffuse information to all network member countries. This would also facilitate communications between companies and all new network members;

Website contents should be aimed at internationalizing SMEs and not only promoting exports. Aside from exportable goods and trade opportunities, websites and portals may also include SME's interest in capital investment from third countries in the network, technical cooperation agreements, sharing of patents, production subcontracting requirements, etc;

Enhancement of relationships between SMEs, Transnational Corporations: this will produce qualitative and quantitative benefits for the promotion of exports and the development of the industry;

Portals may include information, surveys, analysis and academic papers. This will facilitate the relationship between universities and college professors of each network country;

Fostering training and development activities based on all state-of-the-art technology available such as E-learning programs and the like. This can be achieved on the basis of jointly developed contents, exchange of information and experience and best practices of each country. The website may also be used as a discussion forum of common interests and problems by business persons; and

Websites will be used to announce action plans of each network promotion agency that is related to other FEALAC member countries.

This Focal Point initiative was considered a turning point in the FEALAC WG activities. FEALAC member countries agreed that from this point on, the WG should work on concrete projects with the potential to reach country members' domestic markets with a sensible and positive impact.

In this context, several proposals on the SMEs export promotion agencies including training programs were presented by some delegations. One proposal was that FEALAC member countries should facilitate cooperation in sharing technical expertise and capabilities that would help the countries carry out this project. The development of e-learning, e-business and similar platforms should be properly analyzed. Another concrete proposal by Japan was the "Invitation Program for Young Leaders of the FEALAC member countries, SMEs promotion and IT". China proposed "Workshops on Economic Reform and Development in China", while the Republic of Korea proposed "International training programs". In addition, as mentioned earlier, ten delegates made a joint proposal on Small and Medium Enterprises, "Competitiveness, Best Practices and Export Promotion".

Regarding the discussions on sub-item 2 "Training as a tool to optimize the offer of SMEs" Singapore indicated that due to the small size of its economy, a great deal of effort is devoted to help SMEs in their endeavors for growth and adaptation, bearing in mind that the only resource they count with is the human one. Also, Japan announced on the fourth young FEALAC leaders Symposium in early 2005 that would be devoted to SMEs and ICT development in both regions. Similarly, the Republic of Korea informed that it would invite

members of FEALAC to explain the mechanisms used in Korea to assist SMEs. Finally, China took the opportunity to explain about two training programs for FEALAC participation in Economic Reform and Development, which would be organized in the near future.

In relation to Item III on the "Use of Information and communications technology (ICT) in the promotion of business exchange", it was suggested that FEALAC member countries should support the idea to include in the suggested web pages those links that would be most relevant to users, including those oriented to the SMEs. These would ideally be companies interested in either establishing a business relationship with their counterparts in other regions, or having access to useful information and database in relation to sub-item 1. And in relation to sub-item 2 on "Promotion of ICT in the private sector", it was generally admitted that there was a long way to go in the use of ICTs by the private sectors in developing countries, both in Latin America and East Asia.

III. Activities related to SMEs and ITC undertaken under the aegis of FEALAC

In addition to the deliberations made at the official FEALAC meetings, several member countries have taken initiatives toward the concretion of recommendations and policy action. The following section provides a brief summary of the events on the cross-cutting issue of SMEs and ICT that have been undertaken under the aegis of FELAC.

A. "Invitation Program for Young Leaders of the FEALAC member countries, SMEs Promotion and IT" (February 20 to March 2, 2005), proposed by Japan

This program brought together, under the framework of FEALAC, young leaders (a total of 30 young professionals involved in the promotion of small and medium enterprises (SMEs) development) from each member country to share their countries´ experiences and jointly explore relevant policies to achieve sustainable development, including the application of the Kyoto mechanisms, the development and utilization of new renewable sources of energy and the planning of environment-friendly industrial policies. By increasing cooperation under the FEALAC framework, this invitation program was expected to provide an opportunity to deepen understanding and broaden links between East Asia and Latin America. At the end of the seminar, the young leaders proposed a list of 10 suggestions, as follows:

1.- The development of a united FEALAC web portal;

2.- The provision of basic IT infrastructure that SMEs need to be competitive in the global economy (power, broadband);

3.- Encourage more inter- FEALAC business rounds, trade conventions, industry-related trade shows and business matching forums;

4.- Improve enterprise education and the promotion of local and international best practices;

5.- Strengthen the role of private national and local (intermediary) organizations in SME promotion, such as Chambers of Commerce;

6.- Map SMEs an SMEs organizations and networks, including highlighting national or local focal points in FEALAC countries;

7.- Encourage the sharing, and movement of entrepreneurs and skilled workers in FEALAC countries (through the creation of a database);

8.- Each FEALAC country should establish an action plan to improve access to finance for SMEs;

9.- Commission a feasibility study on the role of FEALAC in promoting economic development opportunities in the region. The study should inform the creation of a possible FEALAC SME Working Group; and

10.- Finally, the group suggested the creation of a FEALAC Young Leaders network to encourage continued information exchange.

In the opinion of the organizer and participants, the program was extremely beneficial. Because, through this programe, Japan contributed to making progress in achieving the major goal ("Enhancing Economic Ties to Further Economic Development") of the Manila Plan of Action adopted at the Second FEALAC Foreign Ministers' Meeting (FMM II) held in January 2004.

B. The project "Comparative Study on East Asian and Latin American Information Technology (IT) Industries"

This project was executed by the Division of International Trade and Integration, United Nations Economic Commission for Latin American and the Caribbean (ECLAC), in collaboration with the Institute of Developing Economies, Japan External Trade Organization (IDE/JETRO). The project was financed by the Thematic Trust Fund—Information and Communication Technology (ICT) for Development of the United Nations Development Programme (UNDP), which was established by the Government of Japan.

The underlying consideration behind the project was that SMEs play essential role, especially in developing countries, as job creators and social stabilizers, as well as sources of innovation. In so doing, they contribute both to poverty alleviation and to the overall economic development process. The majority of SMEs are still confronted with formidable obstacles when seeking to start or expand their businesses (especially those related to international trade), but the IT revolution is providing SMEs with effective tools which they can use, in conjunction with appropriate government policy measures, to overcome many of the hurdles they face.

For this reason, this project proposed to examine, from a comparative perspective of the ICT development between East Asia and Latin America focusing on the following issues: i) the present use of ICT by SMEs; ii) best practices and potential benefits of ICT for export-oriented SMEs,; iii) difficulties involved in the implementation of ICTs as a tool for export promotion and e-commerce promotion for SMEs; iv) government polices necessary for such promotion; and v) possibilities for intra- and inter-regional ICTs networks to promote e-commerce between the two regions.

The thirteen Country Studies (6 for Asia and 7 for Latin America)[1] found that an increasing number of SMEs are getting access to ICTs even in developing countries, although

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[1] The case-study countries were six from Asia (People's Republic of China, Japan, Republic of Korea, Singapore, Thailand, and Vietnam) and seven from Latin America (Argentina, Brazil, Chile, Colombia, El Salvador, Mexico and Peru). In addition to these 13 individual case studies, the project produced a final report which consists of two parts; one, detailed summary of the project and its major findings (130 pages) addressed specifically for the FEALAC member countries (32 countries in total); and the other, shorter versions of the 13

there remains a serious digital divide, especially between micro/small and medium firms. The case-studies at a sector and firm level highlighted that by utilizing IT effectively, some SMEs succeeded in improving their administrative capacities, adding more value to their products and services, and/or accessing foreign markets.

One of the common observations made in the papers was that governments, international organizations, and other parties connected to the issues of IT, international trade and development should develop coordination mechanisms with each other in order to translate a broad government policy framework into concrete actions, and to streamline and coordinate the vast and inefficient array of IT promotion policies that now exist.

ECLAC/IDE was of the opinion that the documents prepared by the project could have been more forthcoming and concrete with respect to proposals on the use of ICTs to promote the inter-regional cooperation among SMEs, especially from the perspective of inter-regional business ties in the IT based supply chain in each FEALAC member country. This recognition might call for another project (a second phase of the present) to identify the bottlenecks which inhibit greater inter-regional trade flows and reciprocal investment. The project concluded that the next step would be to study the trade facilitation measures (e.g., customs procedures, security measures, maritime and air transport systems) already in place or that are in the process of implementation that would enhance future inter-regional trade.

The major fact finding of the project are as follows:

(i) Enhance the intra- and inter-regional business ties in the IT-based supply chain in each FEALAC member country

1. **IT conditions at the country level**

There is a clear correlation between income level and penetration ratios of IT products and services. In accordance with this correlation, large gaps among the selected countries in IT diffusion at the country level are observed.

2. **Informatization of firms**

Due to differences in the definition of SMEs among countries and institutions as well as difference in the methods and timing of IT indicator measurements, it is difficult to make a strict cross-country comparison on informatization of SMEs by using official figures.

3. **Penetration ratio of personal computers.**

Introduction of PCs by the corporate sector is entering into the mature phase in developed countries. Even in semi-developed countries, almost all of the large firms have installed PCs, even though there are large gaps in their adoption between micro and medium-sized enterprises.

4. **Penetration ratio of the Internet.**

As with PC usage, almost all large firms in IT-developed and semi-advanced countries have introduced the Internet. The gap in adoption of the Internet is also observable between medium and small enterprises. The severer situations were observable in less-developed

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country case studies (340 pages). It provides as an introduction a concise overview of trade and investment relations among the 32 countries, in addition to an excellent summary of the company case-studies undertaken in each national study. The first part of this project document is now available in Spanish, All the documents are available on the web page of the project (http://www.eclac.cl/comercio/tic%5Fpyme), for consideration of FEALAC member countries..

countries, where less than a quarter of the surveyed entrepreneurs access the Internet daily, and many of them utilize public Internet access. On the other hand, there is a significant difference in progress in the diffusion of broadband Internet, even among companies connected to the Internet.

5. Internet applications

E-mail and information collection are the two major intended purposes of Internet use. Websites are gaining importance as a medium to advertise companies and their products and services. Around 20-30% of SMEs have established websites in some semi-developed countries. Nevertheless, large gaps in website ownership exist among different sizes of firms and industrial sectors even in semi-developed countries. E-commerce is in the initial development stage and growing at a fast rate. B2B dominates and accounts for more than 90% of the total e-commerce transactions in many countries. A small number of large enterprises have adopted e-commerce. SMEs who use it still seem to be the exception.

(ii) Develop SMEs through IT use

1. Contribution of SMEs to National Economies

There may be differences in the definition of SME between governmental affiliates even within a country. But based on various sources, SMEs account for more than 95% of firms in most of the surveyed economies. They create a significant amount of employment – 50 to 85% of the total. Compared to the significant importance of SMEs in terms of number of firms and employment, their contributions to production and value creation are moderate.

2. Internationalization of SMEs

Generally speaking, SMEs are domestic market-oriented. The majority of their businesses are not nationwide, but rather focused on local and small niche markets. On the other hand, a small number of SMEs have succeeded in developing export markets and ground their competitiveness in their strong domestic bases. In addition, the export orientation of SMEs depends on industrial structure and cost competitiveness in their origin countries.

Contributions to exports by SMEs are diverse among the studied countries. In comparison with Latin America, the Asian SMEs in the manufacturing sector seem to be more export-oriented. Data on small and medium-sized exporters (SMEXs) in three Latin American countries clarify the present situation of internationalization of SMEs. The first is a high concentration of export value in larger firms. The second is that most exports by smaller firms are shipped to the neighboring countries in addition to the United States and Europe. The third is a higher level of technology incorporated in exported products.

3. Obstacles to Export for SMEs

Latin American SMEs do not participate in international markets as much as Asian firms. These countries pointed out the main barriers to export as: 1) weakness in their firms' quality management, information management, marketing strategy, customer management, and so on; (2) lack of human capital and access to credit; 3) small production capacity insufficient to achieve economies of scale; 4) lack of access to information relating to markets, regulations, technical norms, and so forth in foreign countries; (5) high freight costs and complexity and slowness of trade-related procedures.

4. Motives to introduce IT

ICT has long been considered an effective tool to overcome obstacles for SMEs to facilitate international trade. The main objectives for private firms to introduce IT found in the case studies are, among others, to: 1) improve information access; 2) improve internal administrative management; 3) improve product management and quality control; 4) enhance productivity by improving internal management as listed above; 5) facilitate collaboration with other companies and seek economies of scale; and 6) acquire new business opportunities.

On the other hand, the main motives for public institutions to promote IT policies and introduce IT are to:

(1) improve SMEs' competitiveness and develop industrial clusters;
(2) promote partnerships between large firms and SMEs, and among SMEs;
(3) decrease costs related to trade procedures for both the private and the public sectors;
(4) increase productivity and transparency of the public sector;
(5) facilitate implementations of trade promotion policies and trade agreements. The public sector is encouraged to utilize IT for two very different reasons;
    (a) to implement their policies for economic and social, and national regional development more efficiently and effectively; and
    (b) to improve their internal management.

5. Patterns of IT usage by SMEs

The SMEs and the public policy bodies analyzed in the case studies make use of IT applications mainly for the following purposes: corporate management & strategy; establishment and coordination of partnership between large and small firms; partnership among small firms; sector-specific services and policies; websites for information provision and business matching; public websites for trade promotion and facilitation; and adoption of IT in the non-IT sectors.

Business-matching services are expected to be a low-cost and convenient measure for SMEs to expand their customer bases. Such online marketing channels can partially substitute for offline ones. Some cases of SMEs that make contacts with a client successfully demonstrate that firms combine traditional marketing channels and IT effectively to build up relations of trust with their clients. However, face-to-face contacts are fundamental as the first step, and trade fairs provide good opportunities for SMEs to encounter potential clients and reinforce bonds with existing clients. A few minutes of communication can be enough to attract persons met at a trade fair showroom to the SMEs' websites. These persons will then visit the websites to gain more information on the companies and their products. E-mails and other telecommunications methods are complementarily used to start deals and coordinate SCM.

6. Barriers to diffusion of e-commerce, SCM and other e-transactions

Various impediments are responsible for the current limited use of e-transactions by SMEs. Among many potential users, there is a serious lack of confidence in e-commerce. For this reason, firms make complementary usage of video conference and other communication methods such as telephone, e-mail, and face-to-face communications. The second is related to a "chicken and egg" argument. A scarcity of IT administrative systems and a lack of experience make firms hesitate to utilize e-commerce and SCM and to fully digitize all of the administrative works related to business transactions. High costs and fees to start e-commerce

by utilizing e-marketplaces are a severe hindrance, especially for SMEs that are incapable of developing their own IT systems. Insufficient human resources and digital infrastructure are always concerns when we discuss development of SMEs.

C.   Prioritized Policy Areas

Policy areas should be focused on: a) improvement of access to information on international trade; b) capacity building; c) formation of virtual clusters; d) trade facilitation and, e) improvement of infrastructure for E-business.

1.   Improvement of access to information on international trade

There is an urgent need to develop IT infrastructure, especially in less developed countries. Among Internet users, information sharing, retrieval, and collection are the main uses of the Internet. Once firms obtain Internet access, they can benefit from these processes. "One-stop service" or establishment of a portal site is the best way to improve information access. What is important is to design the portal from the users' standpoint. A portal site specialized in a specific industry, or Vortal (Vertical Portal) is often useful.

2.   Capacity Building

In order to utilize IT as a tool to promote international trade, capacity building is required in the fields of both IT and international trade. In order for an SME to introduce IT successfully, its management executives need to understand information on IT usage and its benefits, and share such information with their employees, in order to facilitate adoption and implementation of new management systems. On the other hand, trade-related tasks require not only comprehensive knowledge of overseas markets but also the enforcement capabilities to do business negotiation, acquire certificates of quality standards, and to process cumbersome procedures. Foreign language and business culture are also recognized as important areas of capacity building.

3.   Formation of Virtual Clusters

Group cooperation among SMEs can be an effective scheme to foster export industry and promotion. It enables small firms to achieve scale economy and enhance bargaining power. These benefits make it feasible for SMEs to invest in IT and involve themselves in e-commerce.

In the Internet age, SMEs will be able to find business opportunities from forming Internet-based network-type business groups that are more flexible than traditional pyramidal supply chains composed of a large firm on top of the first- and lower-tier suppliers. With the network-type association based on the Internet, it is possible not only to network firms placed within an industrial accumulation but also to create a "virtual cluster" that links up with cooperative networks in different regions.

4.   Trade Facilitation

Burdensome trade-related procedures are substantial barriers for SMEs to export their products. Inefficient handling of trade-related documents that are overseen by governmental departments raises the total cost of international trade.

Trade facilitation requires extensive countermeasures against these problems. The subjects to be addressed are, for example: improvement of access to information on trade-related policies and regulations; simplification of trade-related procedures; mutual recognition of sanitary and phytosanitary measures; digitalization of trade-related procedures such as customs clearance, sanitary and phytosanitary measures, and certificates of origin; and establishment of "single window systems" that interconnect various computerized systems related to international trade and transportation.

5. Improvement of Infrastructure for E-business

Harmonization of business rules based on legal and dispute-settlement systems and common technical standards are required to facilitate international e-commerce. The governmental sector can provide SMEs with incentives and opportunities to gain experience with electronic transactions by computerizing tax collection, public procurement, and other public services.

In the intensive discussions conducted in the International Seminar, the participants pointed out a wide range of policy fields and possibilities for international cooperation aimed at further deepening the inter-regional linkage. The issues discussed that concerned only direct exports can be classified into those related to: 1) access and infrastructure; 2) getting business online; 3) entering into contracts online; and 4) trade facilitation. The related policy issues can be amplified if we consider measures to promote indirect exports. In order to establish an international cooperation system, it is necessary to focus on the prioritized themes.

(iii) The International Symposium on the Application of Information and Communication Technologies for the Competitiveness of SMEs

The International Symposium on the Application of Information and Communication Technologies for the Competitiveness of SMEs was held in Lima, Peru on the 8th and 9th of July of 2005. The Symposium concentrated on three main areas: 1) legislation linked to the ICT; 2) usage and application of ICT by SMEs, and by Governments (the cases of Brazil, Peru and Uruguay) and, 3) best practices of ICT and SMEs: the cases of Chile and Costa Rica. In addition, during the Symposium the following Workshops were organized: 1) Best practices in the use of ICTs in the Governmental sector in Brazil and Peru; 2) State Procurement System and SMEs in Peru; 3) Metalogo Project in Peru, which links the government and the SMEs; 4) Promotion of SMEs in Argentina; and 5) Project ToolBox (caja de herramientas) in Peru for capacity building and promotion of SMEs. The symposium was attended by more than 300 participants, indicating the high level of interest that this subject raises among the public.

During the Symposium, some essential requirements were identified. The most important missing elements are: 1) adequate legislation that enables the economic agent to follow closely the changes in the development of communications, for instance, the legal approval of the "electronic signature", endorsement of internet transactions, business operations, warranties by electronic means, etc; 2) the need for wider diffusion among clients of the uses of ICT as well as of their dangers and limitations; and 3) the need to increase and permanently build capacity among SMEs entrepreneurs, specially in the rural and semi-rural areas. This process should be followed closely with the assistance of sociologists, anthropologists and social psychologists in order to adequately orient the use of ICTs. Participants to the Symposium recognized the efforts that the governments of Latin America have made in improving the technological environment. However, the majority also indicated

that much has yet to be done, particularly in the areas of legislation and business facilitation for SMEs.

Although the Symposium was intended to have a bi-regional reach, due to transportation difficulties only representatives from 4 Asian economies were able to attend. This exemplifies the challenges that face the improvement of relations between Asia and Latin America, namely the challenge of distance.

D. Barriers toward increased use of ICT by SMEs and policy issues for the attention of FEALAC governments

The outcomes of the WG meetings, UNDP project and the Young Leaders Program highlight the main barriers faced by SMEs in Latin America and possibly to Asia and areas where the work of FEALAC may be strengthened. The 13 most common problems faced in relation to SMEs and the use of ICTs:

1. Lack of awareness amongst companies of the possibility/necessity of IT adoption.a. No innovation using technology
   b. SMEs are owned by ICT illiterate people
2. Lack of knowledge regarding IT at Government and Academia level.
3. Limited financing for IT solutions.
4. Lack of collaboration limits capacity for lowering costs and sharing solutions between SMEs.
5. Lack of IT expertise in current workforce (or years to prepare).
6. Lack of training for students.
7. Incipient e-consumers and/or e-culture on buyer's side.
8. Language barrier for accessing foreign Internet content.
9. Non-salary incentives for IT skilled employees.
10. High cost for telecom.
11. Low promotion of local/indigenous IT industry.
    a. Lack of solutions and Internet content in local language
12. Lack of confidence/trust in IT.
13. Lack of consciousness amongst companies of the possibility/necessity of IT adoption.

Consequently, the foregoing points to the main areas of activities that should be exploited by FEALAC countries in order to close the gap between Latin American and Asian countries. They include: 1) raising the level of awareness toward the potential and capabilities of ICT and its effects on productivity enhancement for SMEs; 2) the development of financing instruments that would allow SMEs to have access to updated technologies and be able to afford the initial costs of this upgrading. However, the increase in awareness and the development of financial instruments to allow the upgrading of technological possibilities of the SMEs will not be sufficient if employers and employees do not have access to adequate training to use the new resources competently. Therefore, the final and utmost element that should be pursued by FEALAC members is the increase in the abilities of governments to design policy instruments for creating opportunities for the technological development of SMEs, not only by increasing the amount of resources available to these firms, but also by empowering the employers and employees to make efficient use of them.

IV. Future areas of action for FEALAC's WG on the Economy and Society

The aforementioned FEALAC activities have taught us that Latin American SMEs face though challenges to increase trade with Asia. SMEs in Asia, although somewhat better equipped, underutilize the opportunities offered by Latin America as an export market or production center. In the context of this situation and the two mandates of FEALAC (Entrepreneurship and SMEs, and IT Revolution in East Asia and Latin America), this Organization can make a significant contribution to increase the role of SMEs in trade between the two regions.

This section proposes four types of actions: improve transport infrastructure, boost trade facilitation, raise port security, and invest in food security and traceability. All four are key to SME export promotion and require ICT for their effective implementation.

A.   Improve transport infrastructure

Bilateral traders, especially SME exporters and importers, between Latin America and Asia face high freight charges.[3] These are due to different languages between export and import countries, low-quality of domestic transport and communications infrastructure, inefficient ports and small freight volume. SMEs are even more constrained by insufficient scale economies that are vital in international transport, as an inverse relationship exists between freight costs and volumes.[4] For example in the case of highly perishable products, such as fresh berries, the scale of production will determine the producer's ability to obtain air transport slots and export directly.

Increasing trade between Latin American and Asia calls for more efficient maritime and air transport systems. Improvement in this area would allow FEALAC member countries to take reap the benefits of the new trade dynamism that Latin America and Asia are experiencing today. It would also alleviate the scale economies problem for SMEs to export.

One particular challenge to improving efficiency is the lack of information on the transport system (maritime and air) between the two regions, especially the routes and freight structure for different cargo ships (e.g., general cargo ships for containers, bulk carriers, and tankers). In this respect, the Economy and Society WG of FELAC should analyze the available and planned transport channels between the two regions by:

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[2] The Intenet, in contrast to electronic data interchange (EDI) that is prevalent in industries with large volume supplier/customer relationships, enlarges geographical and sector markets by cutting through many of the distribution and marketing barriers that usually prevent SMEs from entering foreign markets. By eliminating traditional barriers such as distance, time-zone differences, communication costs and access to international markets, the Internet, has emerged as a platform for spreading the efficiencies achievable through the automation of business processes to firms of all sizes. The Internet also permits easy access to the required trade documents and forms and the alignment of trade documents that come in different standards.

[3] A number of factors have contributed to this; 1) the explosive growth of trade between China and the United States, which has attracted a large proportion of container ship hold capacity on to this route and led to a severe shortage of ships on other routes, including those of Latin America; 2) a large imbalance in cargo flows; and 3) the constant rise in the price of oil; and 4) special transport conditions required, as the comparison between frozen and fresh foods.

[4] According to the Association of Manufacturing Exporters (ASEXMA) in Chile, small exporters (those sending just one or two containers a month) "may pay up to 50% more than a business sending 50 containers a month".

- studying the composition of commodity trade flows;

- looking at the transport (maritime and air) system, particularly its structure and vessel capacity and availability of export supply and import demand of both regions;

- Identifying logistical bottlenecks affecting inter-regional trade and recommending solutions;

- Strengthening SMEs Industry and Trade Associations to achieve scale economies for SME exporters through clusters or other means of association, assisted by information dissemination using ICT.

B.   Boost trade facilitation

During the past WG deliberations, complex and high-cost trade procedures and transport were identified as a key barrier for SMEs exports. Burdensome trade-related procedures and high transport costs weigh more heavily on SMEs compared to large exporters. In this respect, trade facilitation measures (*e.g.* maritime and air transport systems, customs procedures, tradability, port security) would enhance SMEs' export capabilities and reduce costs linked to their small production scale and expensive trade logistics. The simplification of trade documents, on Internet, the nonproprietary protocols and global reach, for example, would enable SMEs to export with more ease, lower costs, and fewer delays.[5]

Many trade facilitation measures are ICT-intensive, requiring capacity and instructional building on the part of SMEs. Implementation of informatized trade facilitation measures in developing countries also requires complex and costly institutional changes in the public sector. As such, coordinated and efficient international technical and financial assistance is required to help these countries to modernize. This is also relevant at the interregional and sub-regional levels, but is particularly important for the facilitation of international transactions by SMEs.

For this reason, trade facilitation is indispensable to promote inter-regional trade by SMEs through effective international cooperation. Asia is a frontrunner compared to Latin America in trade facilitation. This is an area where the Working Group can make a significant contribution to FELAC member countries, fully in line with its mandates on SMEs and ICT.

Trade facilitation measures reduce the costs of logistics, and include: 1) better information on trade policies and regulations; 2) simplification of trade-related procedures; mutual recognition of sanitary and phytosanitary measures; 3) digitalization of trade-related procedures such as customs clearance, sanitary and phytosanitary measures, and certificates of origin; and establishment of a "single window system". Inefficient handling of trade-related documents overseen by governmental departments raises the total cost of international trade.[6]

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[5] The Intenet, in contrast to electronic data interchange (EDI) that is prevalent in industries with large volume supplier/customer relationships, enlarges geographical and sector markets by cutting through many of the distribution and marketing barriers that usually prevent SMEs from entering foreign markets. By eliminating traditional barriers such as distance, time-zone differences, communication costs and access to international markets, the Internet, has emerged as a platform for spreading the efficiencies achievable through the automation of business processes to firms of all sizes. The Internet also permits easy access to the required trade documents and forms and the alignment of trade documents that come in different standards.

[6] UNCTAD estimates that five billion trade documents are exchanged annually worldwide, while the International Air Transport Association (IATA) stated that paper trade document handling costs about US$1.5 billion annually. The United States and Australia has reduced the number of data elements in their documents by 90%, by harmonizing their formats and codes when they adopted UneDocs. According to World Bank estimates,

In contrast to Latin America, most of South-East Asia is actively engaged in trade facilitation for SMEs.. This is done on a multilateral basis through APEC (Asia-Pacific Economic Cooperation), ASEAN (Association of Southeast Asian Nations) and GMS (Greater Mekong Subregion) initiatives. ASEAN has played a vital role in facilitating trade and transport in this region, being a key element of economic integration. It imposed trade facilitation committees as a requirement for member countries in 1998 under the ASEAN Framework Agreement on the Facilitation of Goods in Transit.[7] In the case of small Malaysian traders, they will shortly be able to explore markets by a PC-based web browser – facilitated by the adoption of the UNeDocs standard by national customs .[8]

E-docs are electronic documents that follow international standards such as those developed by the United Nations (i.e. Centre for Trade Facilitation and Electronic Business (UN/CEFACT linked to the UN Economic Commission for Europe- UNECE). Most trade documents used by advanced nations and logistics operators are based on these standards and are denominated *aligned documents*. They contain information on locations, countries, currencies, amounts, units of measurement, packaging and product codes and movement and transport types. International recommended code lists exist for each of these data.[9]

In contrast to developed countries, developing and transition economies still use non-aligned trade document systems, which complicate procedures and increase costs, putting a burden in particular on SMEs.

The implementation of trade facilitation measures involves different levels of commitment of the public sector and instructional building, which is to be executed in a sequential manner (see the table below).

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users can save up to 15% in overall trading costs through the use of electronic documents instead of paper sheets. For more information, see http://www.gfptt.org/Entities/NewsProfile.aspx?id=afb39a2d-5634-4915-be79-9e8d75b74112).

[7] See *Trade Facilitation Handbook*, Part I National Facilitation Bodies: Lessons from Experience (UNCTAD 2006, http://www.unctad.org/en/docs/sdtetlb20051_en.pdf), for more information.

[8] Dagang Net, which operates the Malaysian Customs Information System, will implement UNeDocs (short for United Nations electronic trade documents) shortly.. The format standardizes country, port, currency, measurement units and other codes for e-documents, which enable processing by computer, payments to be made through banks, and so on. These e-documents would also comply with national regulatory, legal, taxation and other requirements.

[9] Examples of *aligned documents* are Invoice, Order, Quotation, Consignment Document Despatch Notice, International Consignment Note, Certificate of Origin, Export Customs Declarations, Shipping Instructions, Non-negotiable Sea Waybill, IMMTA Non-negotiable Transport document, IMMTA Negotiable Transport document, and Forwarding Instructions.

Sequencing of Selected Trade Facilitation Measures

TF Measures	Sequencing
TF1. Alignment, HS nomenclature, use of international standards of/for trade documents	A
TF4. Establishment of national trade facilitation committee	A
TF3. Establishment of enquiry points and single focal points for trade facilitation issues	A
TF2. Online publication of trade regulations and procedures in local language and English	A or B
TF6. Establishment of an appeal procedure for Customs etc.	B or A
TF9. Implementation of risk management systems	B or A
TF8. Establishment and systematic use of pre-arrival clearance mechanisms	B
TF5. Provision of advanced and binding rulings on tariff classification, valuation, and origin	B
TF7. Establishment of single window system	C or B
TF10. Establishment and wider use of audit-based customs	C
TF11. Bond Guarantees/Security Deposits for expedited clearance	C
TF12. Expedited procedures for express shipments and qualified companies	C or A or B

Source: Asia-Pacific Research and Training Network on Trade (ARTNeT) Working Paper Series, No. 3 January 2006 – UNESCAP.

A single window system, a key trade facilitation measure, unifies public institutions such as customs authorities, quarantine stations, banks, and airport and port authorities and facilities. In addition, trade-related service providers can transform themselves into a "virtual trading company" that offers one-stop service by carrying out all of the trade-related operations from e-marketplace to transport arrangement, trade finance, and so on. The value of a single entry point - or 'Single Window' - for traders to submit information to governments so as to fulfill import- or export-related regulatory requirements has also taken on increased importance in the new security environment and emphasis on advance information and risk analysis.

It is noteworthy that East Asian FEALAC member countries have made significant progress in implementing single window systems generating important gains in their transport and logistic networks and to their respective governments. In contrast, in Latin America the implementation of such systems lags behind because of a lack of a strong political leadership in the matter and rivalry among trade related governmental agencies. Co-operation could be established between both regions in order to create the necessary synergy in view of the increasing importance of trade facilitation and current emphasis on information technologies. This cooperation can consist of, for example:

- Implementation and dissemination of *aligned trade documents* according to UN/CEFACT recommendations, taking into account specific national characteristics and the need to help SMEs to participate in this process using ICT.

- Creation of a single SME Single Window in order to provide one-stop information on regulations, opportunities and costs. This function could be charged to the FEALAC website, if National governments are not in a position to create this institution.

C.   Raise port security

Port security requires an interdependent network relationship among trade partner ports and associate countries, as well as adherence to a common international standard of security, to protect the flow of international trade and transshipment cargoes, as well as passenger

transportation. Those ports with substandard protective security measures are "weak links" in the trade network and represent a vulnerability to the international marine transportation system.

Among the various initiatives on port security, the Container Security Initiative (CSI) deserves a special mention. This initiative, initiated in January 2002 by the US Customs and Border Protection Bureau, is voluntary. Its purpose is to secure containers against terrorist use and attacks. It is a multifaceted approach covering everything from the design of containers to the procedures for identifying those considered to pose a risk and for achieving the capability of monitoring them in US ports and the major centers of Europe and Asia.

To rapidly detect potential security threats , CSI uses 1) automated information to identify and select containers that pose a risk; 2) pre-screening of containers identified as posing a risk before they arrive at US ports; 3) detection technologies to quickly prescreen containers that pose a risk; and 4) use of smarter, tamper-evident containers. Unless they are found to have been tampered with, containers identified as posing a risk are screened at the port of departure instead of the port of arrival, using a combination of large-scale X-ray and gamma-ray devices and global positioning transponders.

This program has covered the world's 20 busiest seaports handling almost 70% of containers bound for the United States, and it is now being extended to other ports outside this category, mainly for precautionary and competitive reasons. This is the case with the ports of Durban (South Africa), Gothenburg (Sweden) and Klang and Tanjung Pelepas (Malaysia). Currently, CSI ports in FEALAC member countries are: Buenos Aires (Argentina) and Santos (Brazil) in Latin America, and Yokohama, Tokyo, Nagoya and Kobe (Japan); Singapore, Hong Kong; Pusan, (Republic of Korea); Port Klang and Tanjung Pelepas (Malaysia); Laem Chabang (Thailand); Shenzhen and Shanghai, Kaohsiung (China) in East Asia. The revision rate of containers of many Latin American ports is 20-30%, which is more than double that in ports of developed countries [so what do you conclude?]. A lack of coordination between public authorities of different administrative jurisdiction stands out [where?], for example, Customs, Sanitary and Phytosanitary Services, Anti-narcotic, among others.

To address the issue of port security, the WG could:

- Take stock of port security and trade facilitation measures already in place in both regions;
- Estimate benefits and costs of such processes to facilitate the incorporation of new ports to the system; and
- Identify possibilities of cooperation among FEALAC members on port security.

D. Invest in food security and traceability

Various FEALAC members in both regions export food and foodstuff, produced by firms of all sizes, including SMEs. Recently, developed countries' authorities require increasingly precise information on the trajectory of the foodstuffs. More effective tracking methods are needed to follow the journey from the point of production to the point of sale. To enter these countries' markets, foodstuffs now have to comply with new legal provisions requiring full information on the production chain. This is also referred to as traceability or trackability, i.e. a method to structure information and provide guarantees on food security, improve quality management and risk evaluation, increase consumer confidence and enable corrective measures to be taken promptly in the case of safety or quality problems.

New traceability requirements weigh heavily on SMEs and constrain their new trade opportunities emerging in inter-regional trade. Enhancing capacity of SMEs in this area is therefore essential, requiring inter-regional co-operation in information exchanges and capacity building. In this respect, the WT can promote:

- Capacity building, using ICT, related to the challenges of the new trade regulatory environment: security measures, food and phytosanitary certification, traceability, special regulations, etc, with particular concern of SMEs.

- Capacity training in relation to the challenges presented by the new trade regulatory environment: security measures, food and phytosanitary certification, traceability, special regulations, etc., with particular concern to the use of ICT by SMEs in all these processes.