

## CO-CHAIRS' STATEMENT

Forum for East Asia -Latin America Cooperation (FEALAC)  
"Economy and Society" Working Group Meeting

7-8 March 2002, Tokyo, Japan

### Background

The first meeting of the "Economy and Society" Working Group of the Forum for East Asia-Latin America Cooperation (FEALAC) was held in Tokyo, Japan, in March 7-8, 2002. This working group is one of the three working groups established in the First Ministerial Meeting of FEALAC held March, 2001 in Santiago, Chile, with the aim of strengthening dialogue and cooperation in the following fields: politics / culture, economy / society and education / science and technology.

The meeting of "Economy and Society" Working Group was co-chaired by Dr. Akio Hosono, Research Institute for Economics & Business Administration, Kobe University, Japan and Dr. Alan Fairlie, Universidad Catolica, Peru. The meeting was attended by delegates from Argentina, Australia, Bolivia, Brazil, Brunei Darussalam, Cambodia, Chile, China, Colombia, Costa Rica, Cuba, El Salvador, Indonesia, Japan, Korea, Lao P.D.R., Malaysia, Mexico, Myanmar, New Zealand, Panama, Paraguay, Peru, Philippines, Singapore, Thailand, Uruguay, Venezuela and Vietnam.

### Objective and Procedure

The objective of this working group is to first analyze and evaluate the positive and negative aspects of globalization. Then, regarding the positive aspects, the working group is to draft projects that strengthen further cooperation between both regions. As regards the negative aspects, the working group is to find measures to overcome jointly existing difficulties that FEALAC member countries face.

The characteristic that differentiates this forum from other existing forums such as ASEM is that most of FEALAC members are developing countries. Among the FEALAC member countries, developed countries already possess certain social safety-net such as measures for the poverty reduction and social welfare. Nevertheless, in many developing countries, there are people who fell out of such safety-net. Therefore, the meeting noted the importance of FEALAC working groups paying special attention to the issue, so that the member countries may discuss how to deal with the negative aspects of globalization, including the construction of social safety-nets, in each country by sharing experiences with others.

The objective of the first meeting of the "Economy and Society" Working Group was to look into common challenges that the two regions face in the socio-economic field, analyzing the current situation and focusing on positive and negative aspects of globalization. The strengthening of the bases for sustainable economic growth was one of the most important subjects for the working group. In addition, after the economic crises that had hit both regions, social problems were also among the issues to be given an urgent attention.

The discussions in the meeting proceeded based on the Report of the Japanese Research Group which had been prepared by a group of Japanese scholars. The document is attached to this report as a reference which does not reflect a consensus view of the entire group.

The second meeting of the Working Group scheduled after the SOM IV will then draft recommendations on specific Forum-wide projects that can contribute to furthering mutual understanding and cooperation between East Asia and Latin America. The discussions in the first Working Group meeting and the SOM IV will serve as the bases of our job at the second Working Group meeting. When drafting projects, the positive and negative aspects of globalization should be taken into account. The aim of the projects should be placed in overcoming such negative aspects as well as strengthening the positive aspects of globalization.

The exchange of views and discussions in the meeting was very fruitful and substantial and the participants were able to accomplish the aims of this meeting. The current report contains the results of the two-day discussion. It will be presented to the Fourth Senior Officials Meeting (SOM IV) scheduled for October 2002 in Colombia.

## Summary of Discussions

### 1. Institutions and Governance

Participants at the meeting noted that sustainable development cannot be achieved only through the market mechanism. Appropriate corporate governance and the oversight thereof by public or semi-public institutions are also key contributing factors. However, unintelligent and excessive public intervention in economic affairs could worsen the rent-seeking propensity of some economic actors and hinder sustainable economic development. Transparency of the public administration should be guaranteed by appropriate training programs for administrators and by watchful participation of civil society although political stability should not be sacrificed as a result. In the meeting, it was also pointed out that the creation of an efficient and low-cost social safety net is indispensable for sustainable economic development of the two regions.

#### (Administrative Governance)

Regarding the nature of public administration, some participants mentioned the importance of the relationship between state bureaucracy and political leadership as an important factor that affects the pattern of economic development. Many East Asian countries are blessed with a professional type of bureaucracy, which were relatively aloof from political strife and consistent in its policy orientation. As a result, it came to play an important role in the economic development of those countries. However, the public administration of East Asian countries was not completely free from negative impacts of clientelistic connections between public and private sectors.

The meeting agreed that good administrative governance is a key element for both political stability and economic development. Many participants believe that transparency should be a part of good administrative governance to be supported by

mass media and civil-society groups. The meeting agreed that both regions should be able to learn from each other's experience of administrative reforms and to envision a common training program for administrators.

Health, education and private social security reforms also imply redefining of the role of the State and that they are also key factors in human capacity building, essential for the knowledge-based society.

#### (Corporate Governance)

The meeting noted that both regions have commonly observed the increasing emphasis on corporate governance during the past decade. In Latin America, as a result of privatization process, private enterprises became the main focus of economic development during the first half of 1990s. In East Asia, corporate governance as a means to attain competitiveness of individual enterprises became an important agenda after the financial crisis of 1997.

In the meeting, it was also pointed out that "corporate governance" should not be limited only to the governance at the level of individual enterprises. It should be used in a broader sense so that efforts of the public sector and civil society to oversee and foster prudent corporate governance can be also considered. In this regard, some participants argued that the restructuring of financial institutions, which includes the introduction of regulations on equity and monitoring of credit loans by commercial banks, can contribute to a better corporate governance. The meeting also discussed the functions and powers of the State, the relationship between the State and the private sector, the participation of the civil society and the rules that affect the activities of the private sector.

The importance of transparency, establishment of appropriate institutional rules, regulations that enhance the competition and the positive environment for the investment were raised as some of the measures necessary to be implemented.

Most of the delegates agreed that the role of the State in the promotion and development of better practices in the corporate governance is fundamental. It was emphasized the need to develop the capacities in the field of the corporate governance and to promote them at the level of public and private institutions.

It was also discussed the need to strengthen transparent and stable judicial branch that build trust, especially for the investors. It was recognized the need to reinforce the cooperation in the fields of corporate governance, exchange of experiences in the development of bureaucracy, and the social welfare. Some participants proposed to include in a future study the fight against corruption, the supervision of capital markets and unequal income distribution as an obstacle for the development.

#### (Social Welfare System)

The meeting noted that at present, both regions face a common challenge to establish an efficient and low-cost social safety-net as an essential element of good governance in the age of globalization and liberalization. The proportion of social service expenditure within the total amount of public expenditure is higher in Latin America than in East Asia. In the past, non-governmental social welfare systems such as

families and communities contributed to reducing public expenditure for social services in East Asia. After the 1997-98 crisis, however, the Asian governments realized that they need to play a greater role in providing basic social services to help the poor.

The meeting agreed that a joint effort to find out a means to consolidate an economical but efficient welfare system will be highly beneficial to both regions.

(Other Issues)

In the meeting, some participants argued that drug-related problems and terrorism are also common concerns for many FEALAC members and, therefore, these issues should be discussed within the framework of FEALAC.

## 2. Economic Development and Poverty

In the meeting, following issues were identified important: First Generation and Second Generation Reforms, institutional design for the poverty eradication projects, profiles of poverty in East Asia and Latin America, characteristics of underlying social structures, and roles of central and local governments. In exploring areas for further consideration, attention was directed to inter-regional and global approaches to poverty reduction, as manifested in the Social Summit of 1995, the recently established regime of Poverty Reduction Strategy Paper (PRSP), and the WTO Doha Development Agenda.

(First and Second Generation Reforms)

The meeting noted that Latin America has undergone a prolonged process of structural economic reform and adjustment in 1980s, which is said to be the First Generation Reforms. However, with drastic changes that have been experienced in the business environment, at present, there is a need for the Second Generation Reforms focusing on institutional aspects of development. This may be classified in three broad categories: (1) rules defining the functions and powers of the state; (2) rules governing the interactions between the state and civil society; and (3) rules and enforcement mechanisms impinging on the activities and transactions of private agents.

In the meeting, it was mentioned that since 1990s, the goal of international development seems to have converged on poverty reduction. In the recent years, the World Bank has come to play a broader leadership role both in the formulation and promotion of policies and has instituted two schemes, Comprehensive Development Framework and Poverty Reduction Strategic Paper. The Bank has not only implemented this strategy in low-income countries, but recently it has also begun to implement the strategy in middle-income countries.

Among the diverse issues discussed, the "Second Generation Reforms", that is being implemented in Latin American countries, was a recurrent theme. In the discussions, it was emphasized that its implementation will influence decisively the reforms of the State and the institutional changes that are required for the fight against poverty, development of SMEs, and acquisition of the opportunities that the IT revolution offers. It was also recognized the importance of discussing development strategies.

Therefore, it is important to carry out comparative studies of the implementation in each country of the "First Generation Reforms" and to define in each case its future tasks.

#### (Poverty Eradication Programs)

In the meeting, it was pointed out that there are three types of poverty eradication programs; (1) programs related to infrastructure building, (2) the anti-poverty programs and projects related to sustainable development, (3) rural banking projects.

In the meeting, it was recognized that learning from the success and failure of institution building for the purpose of poverty reduction could provide valuable guidance for each country. It is important that best practices of institutional models pay due consideration to local circumstances so as to be effective.

The meeting also recognized the importance of decentralization as the key for the eradication of poverty.

#### (Profiles of Poverty in East Asia and Latin America)

In the meeting, it was recognized that number of population living in poverty or extreme poverty is higher in urban areas than in rural areas in Latin America. On the other hand, most of the poverty problems in Asia exist basically in rural areas.

Regarding the income, the meeting noted that the income gap in Latin America is more serious than East Asia, and Latin American countries are obliged to spend more money in social services as there is greater pressure on social services.

It was also mentioned that poverty exists not only in developing countries but also in developed countries.

It was pointed out that the poverty affects more than half of the population in Latin America. Although there are successful implementations of policies against the poverty, its definitive reduction will only be achieved with sustainable growth, which in turn requires higher investment in human capital. On the other hand, it was emphasized that Amartya Sen's human capacity perspective is an important contribution to focus on the conceptual aspect. It is also an important approach towards the measurement problems and the design of multidimensional policies. In some cases economic growth of some of the Latin countries helped to reduce poverty. However, various poverty eradication programs could not obtain good results, in spite of the existence of specific strategies.

It was mentioned that although unequal income distribution is one of the factors that explains the level of poverty in many countries, other factors should be considered as well, such as social services and social security network.

#### (Other Discussion)

The discussion was held around the idea that the liberalization of trade can have a positive effect on the alleviation of poverty. Some of the points raised by member countries during this discussion related to the idea of opening up trade opportunities

for developing countries in the markets of developed countries, and New Zealand's policy of duty free access to least developed countries.

### 3. Small and Medium Sized Enterprises (SMEs) and Entrepreneurship

In the meeting, it was recognized that SMEs were accomplishing an important role in development in East Asia and Latin America. Many of them are dynamic, export-oriented and/or knowledge-based and therefore are essential for participatory economic and social development in both regions. However, they have to adapt to new business environment due to globalization and economic reforms. They are now required to be globally competitive in order to respond to new business opportunities. In these efforts, they are commonly facing a series of difficulties, among others, problems related to finance, regulations, and technology. It is considered very important to encourage entrepreneurship in this process. Hence, the exchanges of experiences related to development of SMEs and entrepreneurship in the above-mentioned changing business environment and opportunities were considered to be very fruitful.

#### (Profiles of SMEs in East Asia and Latin America)

In the meeting, it was noted that SMEs are playing a significant role in the economies of East Asia and Latin America. Nevertheless, there exists a substantial gap of productivity between SMEs and large enterprises. In the meeting, it was recognized that the role of SMEs is substantial, for they contribute to generate innovation, create employment, channel enterprising skills and satisfy countless social needs.

In the meeting, it was mentioned that many East Asian economies already have systems to support SMEs. In recent years, many East Asian governments have used policy tools to create industry clusters as incubators for new industries. Specific steps have included the provision of infrastructure as well as tax concession and tariff exemptions.

The contribution of SMEs is considered important for the economy of both regions. However, there is evidence of the existence of fundamental differences as regards the nature of SMEs. There are differences not only in the size and contribution to the economies but also in the productivity and competitiveness.

While in Asia SMEs including latest generation industries and services such as IT take up big proportion in the respective economy, in Latin America the share is more limited. Although SMEs play an important role in Latin America, their exporting capacity is still restricted.

For Latin American countries, the above-mentioned situations constitute a great challenge for the private enterprises and for the State that implements specific policies. In Latin America, policies regarding the financial sector, training of experts, export promotion, the coordination of the relationship between large and small enterprises have been less successful than in Asia.

#### (Knowledge-based Society and SMEs)

In the meeting, it was noted that the emergence of a knowledge-based society exemplified in information technology during the 1990s has heightened expectations towards the role of venture business in meeting the growing demand for software and content. It was recognized that dynamic entrepreneurial activity is crucial to the formation of new industries. In this sense SMEs play an important role in the process.

In the meeting, there was an opinion that knowledge has become a critical asset that enables organizations to generate tremendous wealth. The knowledge-based economy affects SMEs in the following ways. Firstly, in the knowledge-based economy, end consumers will have more power. This means that SMEs will face more competition, but Internet has also opened up new opportunities. Secondly, the convergence of IT and telecommunications industries has provided SMEs and new ventures opportunities to serve the newly merged industry clusters. Thirdly, the transition to a knowledge-based economy will expose SMEs to international competition. To respond to the changes, SMEs need to increase connectivity to suppliers, customers and the general public.

#### (Hindrances for the Development of SMEs)

In the meeting, analysis was being made regarding issues/factors that prevent SMEs from development. Some points indicated in the meeting were as follows: (1) The overlapping of rules and the complexity of administrative procedures imply a high economic cost and a loss of time that increase damage.

(2) There is an absence of communication among different administrative sectors and also among administrative sectors and enterprises. Such lack

of communication creates hindrance to the access of updated information.

(3) The access to external sources of finance is lower in Latin America than in East Asia.

(4) SMEs frequently do not possess qualified human resources nor capacity to train their personnel to palliate their weakness.

#### 4. IT Revolution in East Asia and Latin America

In the meeting, the importance of government initiatives in infrastructure of both hardware and software, deregulation, and education was widely recognized. Several basic aspects of IT such as those related to digital divide, application of IT to socio-economic development, e-government, civil societies, poverty reduction, competitive participation in the global market were discussed. Possibilities of digital jump, use of open/free wares and so on were also considered important for the emerging economies to catch-up in the "IT Revolution". The meeting agreed that exchange of experiences related to above-mentioned issues among countries of East Asia and Latin America could be highly promising.

#### (The Influence of IT in Our Society)

In the meeting, it was pointed out that IT has greatly changed our system and indeed this is worth calling the third industrial revolution. Basic trend can be observed in the IT revolution in terms of structural changes. That is (1) from telephony to the Internet, (2) from fixed to mobile telephone, and (3) from narrowband to broadband. In the near future, next trend will be multimedia convergence, i.e. (4) from TVs to PCs if TVs have the digital broadcasting function.

Also, it was mentioned that diffusion of the Internet depends on the three factors: (1) availability; (2) accessibility; and (3) affordability. Availability means the network's penetration into households. Accessibility focuses on providing access points such as public telephone etc. Affordability is measured in terms of price of connection.

It was mentioned that the growth and dissemination of mobile phones is marvelous in developing countries, which sometimes lack traditional telephone copper-line networks.

The software sector has two distinct characteristics. One advantage is its absence of backward linkage, or what is called an "island of competitiveness". The other is its small initial investment due to knowledge intensity. Due to these characteristics, software businesses can be set up anywhere in developing countries.

It was mentioned that the lack of domestic suppliers of parts and components is a concern to many nations. Integrating local providers into supply chains is not always possible. Countries may have to look more laterally as to how they may benefit from the IT revolution. Geography, proximity to major markets, good educational standards, time zone advantages, are factors, that can be exploited.

The meeting noted that IT revolution opens up expanded opportunities to everybody. However, not all the organizations and countries is equally capable to take advantage of the opportunities.

It was mentioned that although the information industry offers wide options for all the people, careful attention should be made so that IT technologies contribute to take out the maximum profit without widening the poverty gaps.

(Profiles of IT Situations in East Asia and Latin America)

In the meeting, it was pointed out that in general, Latin America has lower penetration of Internet compared with East Asia. There are mainly four reasons though the situation varies country by country. Firstly, there exist income disparities, which cause low penetration of Internet access. Secondly, the lack of basic infrastructure such as telephone networks that are bases for Internet connection. Thirdly, privatization of state-owned enterprises in Latin America did not necessarily bring about efficient Internet diffusion. Fourthly, Latin America lacks interconnection between major network access points within the region. More concerted investment efforts for interconnection are required.

It was pointed out that while computer usage in Latin America may be lower than East Asia, the use to which computers are put in Latin America is in no way less valid or productive than usage in East Asia.



In the meeting, it was noted that the challenge is to define appropriate domestic policies as well as international cooperation in the area of IT. It should be noted that there is a great asymmetry in the development of IT environment between both regions. In general terms, while in many East Asian countries, long term IT strategies are being implemented, in Latin America, there is a lack of such strategies.

#### (Role of Government)

It was noted that in order to diffuse and promote the Internet, the role of government is crucial. Governments must take actions to ensure that all segments of their communities receive exposure to increasing computer literacy and skills. At the same time, governments have duties in the field of deregulation and support for the establishment of hardware and software.

#### (Other Usage of IT)

It was mentioned that IT could be a tool to monitor government for the improvement of governance, transparency and accountability of the government and for the elimination of illegal activities such as corruption. It can also be utilized in the area of education, and to strengthen the competitiveness of enterprises, etc.

#### (Role of FEALAC)

The meeting recognized that IT could offer more opportunities for the FEALAC member countries in many fields. The meeting further noted that FEALAC should take part not only in the area of exchange of experiences in the field of IT, but also in the actual applications of successful experiences of some countries.

#### Summary

The meeting analyzed the current economic and social conditions of the FEALAC countries and identified common challenges that are considered to be highly relevant for dialogue and cooperation in the FEALAC process. The meeting agreed that the objective of the meeting was successfully accomplished.

The meeting also agreed that the participants will study and explore possible Forum-wide projects, based on the results of this first meeting, in the second "Economy and Society" Working Group meeting scheduled for early 2003.