

Relevant issues to increase the economic relations between Asia and Latin America

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A. POLICY LESSONS

- South Korea is a major source for policy lessons, drawn from its remarkable and no less than spectacular growth trajectory.
- Korea is a unique case in the sense that without being a real empire, it is now in a position near to the so-called core and has several transnational firms dominating significant shares of world markets in high-tech and extremely competitive sectors, such as automobiles, information and communications technology, electronics, aerospace, steel,
- Without having the stigma and suspicion of a great power, Korea can easily mingle with developing countries as a success story that is willing to contribute in helping others to raise their own levels of development

THE MIDDLE INCOME TRAP

- Some LAC have fallen in the middle income trap. Argentina and Uruguay are maybe the best examples.
- After achieving high income levels in the first half of the 20th century, with a broad middle class sector, high standards of education and health, they have become stagnant in the second half.
- Both countries are highly dependent on raw materials (meat, corn, soja, wheat, wool, milk) in spite of having a wide manufacturing sector.
- What can Chile, Colombia and Peru do in order not to follow the same route?

THE MIDDLE INCOME TRAP (2)

- The Korean experience may be helpful to find the right answers.
- Maybe we should compare industrial and agricultural policies
 - ❖ How are both sectors treated in Korea and LAC in terms of fiscal policies, tariffs
- Government intervention in infrastructure
- Incentives to Research and Development should also be compared.
- Labor markets may also provide the right answer: How easy is to hire and fire workers in both sides of the world.

THE KOREAN EXPERIENCE IN ADAPTING MODERN TECHNOLOGY AND INNOVATING

- Here again we need to compare educational systems, but this time the focus will be the contents of the curricula both at schools and universities.
- Maybe LAC curricula are obsolete or inappropriate.
- Intellectual Property (IP) policies should also be compared.
- ¿How is piracy (music, books, software, patents) treated in South Korea?
- We don't know if IP policies in LAC are too soft or too hard.
- What is the main source of funds for research: government or private firms
- Do firms make R&D by themselves? Do universities play any role?



THE KOREAN UPGRADING OF HUMAN CAPITAL

- ¿Who takes main decisions about education: households or firms?
- Do workers have (fiscal or credit) incentives to improve their capabilities?
- Do firms have (fiscal or credit) incentives to improve the capabilities and educational levels of their workers?
- Where do workers improve their capabilities: at work or at the universities? We need to compare the Korean and LAC experience
- What is the relationship between universities and private firms?

HOW TO PROMOTE KOREA AND LAC JOINT VENTURES

- Korea's FDI has shown to be dependent in their firm's specific interests (Samsung in Mexico, Hyundai in Brazil, SK Energy in Peru)
- ¿How can LAC incentive other kinds of investments?
 - Investments in infrastructure (highways, harbours, electricity)
 - Investments in machinery and equipment, steel, ships, petrochemicals.
 - Investments in electronics and automobiles
- Fiscal incentives
- Improvements in LAC human capital



COMPARISON ON KOREAN AND LAC POLICIES

- LAC can also take a look at their internal policies and compare them with those applied in Korea.
- This approach may allow us to fill the gaps left by the first approach



COMPARISON OF SOCIAL POLICIES

- How does government intervene in education?
 - ❖ Are schools and universities mainly public or private?
 - ❖ Does government give financial aid (subsidies, credit) to students
- The same question for health and social security
- Maybe some LAC have better answers to the pension problem
- Subsidies to the poor

COMPARISON OF FISCAL POLICIES (REVENUES)

- There is an increasing dominant role of natural resources taxation in government revenues. This increases the volatility of fiscal revenues.
- Furthermore, international commodity prices could follow a long term pattern different to the normal international business cycle.
- This brings difficulties in designing a countercyclical fiscal policy and fiscal rules in countries dependent on natural resources such as Peru or Chile. There might be similarities and differences with some Asian countries .



COMPARISON OF FISCAL POLICIES (EXPENDITURES)

- There is a problem of efficient matching between permanent and transitory income and permanent and transitory expenditures.
- Macroeconomic consequences of mismatching in government revenues and expenditures. Asian experience could be important due to the emphasis given to expenditures in infrastructure.
- Problems of efficient implementation of decentralization of government expenditures



REGULATION AND COMPETITION POLICY

- LAC have made great improvements in terms of regulating public services. However, there are new problems to solve:
- The first is what to do with telecommunications: do we still need to regulate tariffs and interconnection in order to have better services?
- The second is what to do with the electrical sector in terms of tariffs and competition
- In a next future there can be an international trade of energy
- Gas and oil sectors present similar problems
- The financial sector will be a new problem to solve